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HEALTH SERVICES AND DEVELOPMENT AGENCY
SEPTEMBER 24, 2014
APPLICATION SUMMARY

NAME OF PROJECT: Regional One Health Imaging, LLC

PROJECT NUMBER: CN1406-024

ADDRESS: 6555 Quince Road
Memphis (Shelby County), TN 38119

LEGAL OWNER: Shelby County Health Care Corporation
877 Jefferson Avenue
Memphis (Shelby County), TN 38138

OPERATING ENTITY: Not Applicable

CONTACT PERSON: E. Graham Baker, Jr.
(615) 370-3380

DATE FILED: June 13, 2014

PROJECT COST: \$5,345,900.00

FINANCING: Combination of Cash Reserves and Equipment
Financing

PURPOSE FOR FILING: Establishment of an Outpatient Diagnostic Center and
the initiation of Magnetic Resonance Imaging (MRI)
Services

DESCRIPTION:

Regional One Health Imaging, LLC, a new Tennessee corporation formed in June 2014, a wholly owned subsidiary of Shelby County Healthcare Corporation d/b/a Regional One Health (ROH), is seeking approval for the establishment of an outpatient diagnostic center (ODC), the acquisition of magnetic resonance imaging (MRI) equipment and the initiation of MRI services in approximately 5,275 square feet of leased space on the first floor of an existing medical office building owned by ROH. The building is located on a 6 acre site at 6555 Quince Road in Memphis, Tennessee, approximately 17 miles southeast of the hospital campus in Memphis. In addition to MRI, the proposed ODC will provide computed tomography, mammography, X-Ray/Fluoroscopy, bone density and ultrasound services. Except

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for MRI, these additional imaging modalities are not reviewable under Tennessee CON law and will only be addressed in this summary to make clear how the ODC is being utilized.

Note to Agency Members: please note this applicant also appears on the September 24, 2014 Agency Agenda as General Counsel's Report Item VII.B. The applicant has requested that if this application for the establishment of an outpatient diagnostic center is approved, that a change of control of the legal entity also be approved which would permit the applicant to then operate this facility as a department of the hospital under the hospital's license rather than a free-standing Outpatient Diagnostic Center (ODC). On July 31, 2014, applicant representatives Graham Baker and Kim Looney requested an August 5, 2014 meeting with staff to discuss the proposal. Mr. Baker and Ms. Looney were advised that the requested changes prior to application being heard would constitute a substantive amendment which would void the application. The General Counsel's report request was then filed on August 28, 2014. Mr. Baker's letter and staff comments are attached to the General Counsel's Report.

CRITERIA AND STANDARDS REVIEW

OUTPATIENT DIAGNOSTIC CENTERS

1. The need for outpatient diagnostic services shall be determined on a county by county basis (with data presented for contiguous counties for comparative purposes) and should be projected four years into the future using available population figures.

While the proposal seeks approval for a new ODC with MRI, the applicant states that it is, in large part, a shifting of the outpatient imaging services from the downtown campus of the parent company's 631 licensed bed hospital, Regional One Health (f/k/a The Regional Medical Center at Memphis or the Med), to an existing Medical Office Building owned by Regional One Health within the same service area. As a result, projections are based, in part, on the utilization of the hospital's existing fixed MRI unit and recapture of lost utilization due to no shows, cancellations and overrides by priorities of other services such as trauma patients.

According to the applicant, Shelby County residents accounted for 88.5% of the admissions by Tennessee residents. Per Item 8 of the June 25, 2014 supplemental response, Shelby County residents accounted for approximately 90% or more of the hospital MRI service's total routine outpatient volumes in 2013. In light of these factors, the proposed ODC's

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projected MRI volumes are expected to increase by 49.1% from 2,138 procedures in Year 1 to 3,188 procedures in Year 4 of the project. According to the Tennessee Department of Health (TDH), the population of Shelby County is expected to increase by 1.1% from 943,812 residents in 2014 to 954,812 residents in 2018.

It appears that the applicant meets this criterion.

2. Approval of additional outpatient diagnostic services will be made only when it is demonstrated that existing services in the applicant's geographical service area are not adequate and/or there are special circumstances that require additional services.

The applicant projects utilization of approximately 2,363 MRI procedures at the proposed ODC in Year 1 based on continued growth in Regional One Health's routine outpatient MRI patient caseloads (approximately 34% from 2010 to 2013) combined with the expected recapture of patients who would benefit from the ODC's plans to provide timely service in a convenient outpatient-friendly location. According to HSDA Equipment Registry records, the existing hospital MRI unit performed 4,491 MRI procedures in 2012 or approximately 156% of the 2,880 MRI standard. The utilization of the 40 existing MRI units in Shelby County averaged 2,844 procedures or 99% of the MRI standard in calendar year 2012. The applicant states that the proposed ODC will not adversely impact new MRI providers with outstanding and unimplemented Certificates of Need for MRI units based on the specialty nature of their projects (note: please see remarks in Item 9 of the 6/25/14 Supplemental response. The projects are listed at the end of the staff summary).

It appears that the application will meet this criterion.

3. Any special needs and circumstances:
 - a. The needs of both medical and outpatient diagnostic facilities and services must be analyzed.

The applicant states that the proposal builds open existing demand and expected growth in the hospital volumes of Regional One Health and will not adversely impact other providers in Shelby County.

The applicant noted the areas or tracts of Shelby County that are "Medically Underserved Areas" designated by the Health Resources and Services Administration, U.S Department of Health and Human Services.

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It appears that the applicant meets this criterion.

- b. Other special needs and circumstances, which might be pertinent, must be analyzed.

In addition to designated Medically Underserved Areas, the applicant noted that the poverty level of Shelby County residents was 19.7% of the county population compared to a statewide average of 16.5%

It appears that the applicant meets this criterion.

- c. The applicant must provide evidence that the proposed diagnostic outpatient services will meet the needs of the potential clientele to be served.

1. The applicant must demonstrate how emergencies within the outpatient diagnostic facility will be managed in conformity with accepted medical practice.

The applicant plans to have a transfer agreement with Regional One Health in large part based on its relationship through common ownership of the parties by Shelby County Health Care Corporation. Existing emergency protocols of the hospital MRI service will be utilized at the proposed ODC. For more information, please see the applicant's response to Item 9 on page 13 of the 6/25/14 Supplemental Response.

It appears that the application will meet this criterion.

2. The applicant must establish protocols that will assure that all clinical procedures performed are medically necessary and will not unnecessarily duplicate other services.

The applicant states that services will be provided when medically necessary as documented by orders from referring physicians.

It appears that the applicant meets this criterion.

MAGNETIC RESONANCE IMAGING SERVICES

1. Utilization Standards for non-Specialty MRI Units.

- a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI

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procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.

As noted, the proposed ODC will serve to expand outpatient MRI capacity of Regional One Health, based on its relationship to the proposed ODC through common ownership by Regional One Health. The methodology used to project increased outpatient utilization and recapture utilization due to no shows and cancellations was identified in the application and supplemental response. Per the 6/25/14 supplemental response, the applicant states that it could reasonably be expected to perform 2,138 MRI procedures if the MRI unit were available now (in 2014). Projected utilization for the proposed MRI unit is 2,160 in Year 1 increasing to 3,188 procedures in Year 4. The utilization of both the applicant and the hospital MRI units is shown in the table below.

	2014 (estimated)	Y1	Y2
Applicant's MRI Unit (projected)	Not Applicable	2,363	2,611
Hospital MRI unit	4,600	3,365	3,365

It appears that the applicant is on track to meet the MRI standard.

b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

d. Mobile MRI units shall not be subject to the need standard in paragraph 1 b if fewer than 150 days of service per year are

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provided at a given location. However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.

e. Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI Unit that is combined/utilized with medical equipment such as a megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.

The criteria identified in items 1.b – 1.e above are not applicable to the applicant's proposed ODC at 6555 Quince Road in Memphis.

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

The applicant has designated Shelby County in Tennessee as the proposed outpatient diagnostic center's primary service area based in large part on its relationship to Regional One Health in Memphis. As noted in the FY2013 "Patient Origin for Outpatient Imaging Modalities" table in the attachment to the 6/25/14 supplemental response, the applicant reports that residents of Shelby County accounted for approximately 96% of the hospital's routine outpatient utilization in 2013.

It appears that this criterion has been met.

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

The applicant notes that the proposal will not adversely impact existing or approved but unimplemented Certificates of Need for MRI projects in

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Shelby County. The project is based on existing MRI utilization in excess of 150% of the current 2,880 per unit MRI standard in the State Health Plan. Adding MRI capacity at the hospital campus of Regional One Health was not selected based on the factors related to improved access by outpatients of the hospital, continued projected increase in demand and the development of a "medical neighborhood" at the site of the proposed ODC.

It appears that the applicant will meet this criterion.

4. Need Standard for non-Specialty MRI Units.

A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 5 days per week x 50 weeks per year = 3,600 procedures per year

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.

A total of 39 stationary MRI units were operating in the service area in 2012 increasing to 40 units in 2013. The MRI utilization of the 40 units in Shelby County was 108,579 in 2013 for an average of approximately 2,715 procedures per unit during the period, a 4.5% decrease from 2,845 MRI procedures per unit in 2012 (HSDA Equipment Registry as of 8/28/14).

As noted, the proposal focuses on the shifting of outpatient MRI utilization of the existing MRI service at Regional One Health, which operated at 4,131 MRI procedures in 2013 (143% of the MRI standard). The applicant states that the project will have minimal impact to existing providers.

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It appears that the applicant partially meets this criterion.

5. Need Standards for Specialty MRI Units.

This standard does not apply to this application.

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units.

This standard does not apply to this application.

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

- a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

The applicant has provided documentation in the application confirming that the proposed MRI meets FDA certification requirements.

It appears that this criterion has been met.

- b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

The applicant has provided a letter dated June 12, 2014 from the project manager of a an architectural/construction management firm hat affirms the proposed MRI physical environment conforms to applicable codes and standards.

It appears that this criterion has been met.

- c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

The applicant intends to have a transfer agreement in place with the Regional One Health in Memphis.

It appears that this criterion has been met.

d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

The applicant described the process that it will use to confirm that it will perform MRI procedures only when medically necessary.

It appears that this criterion has been met.

e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

The applicant indicates that Regional One Health is Joint Commission Accredited. The applicant states that it will seek American College of Radiology (ACR) accreditation for MRI, CT, Ultrasound and Mammography for the proposed ODC.

It appears that this criterion has been met.

f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

The applicant indicates that it will seek accreditation by the American College of Radiology for the proposed new ODC.

It appears that this criterion has been met.

g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

As noted, the applicant provided documentation attesting to a transfer agreement with Regional One Health. The applicant's medical director is an active member of the medical staff at the hospital (please see qualifications submitted with the 6/25/14 Supplemental response).

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It appears that this criterion has been met.

8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

The applicant indicates data will be submitted within the expected time frame.

It appears that this criterion has been met.

9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

- a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration; or

The proposed ODC is located in an active medically underserved area as designated by the Health Resources and Services Administration. As noted in the TDH summary, the applicant is a subsidiary of Regional One Health and will apply for certification in both Medicare and TennCare, participate in all existing TennCare managed care contracts and will accept patients regardless of their ability to pay.

The applicant meets this criterion.

- b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

The criterion does not apply to this application.

- c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

The applicant states that it will contract with all TennCare managed care organizations that operate in the service area as is presently the case with related activities of its owner, Regional One Health.

It appears that the applicant meets this criterion.

- d. Who is proposing to use the MRI unit for patients that typically require longer preparation and scanning times (e.g., pediatric, special needs,

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sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

It appears that this criterion does not apply to the project.

It appears that special consideration may be warranted by HSDA Agency Members on the basis of the responses to 2 of the 4 factors identified in this standard.

Staff Summary

The following information is a summary of the original application and all supplemental responses. Any staff comments or notes, if applicable, will be in bold italics.

As noted, Regional One Health Imaging, LLC, a Tennessee corporation formed in June 2014 owned by Shelby County Health Care Corporation, d/b/a Regional One Health, has applied for the establishment of an outpatient diagnostic center (ODC), the acquisition of magnetic resonance imaging (MRI) equipment and the initiation of MRI services in approximately 5,275 square feet of leased space of an existing medical office building at 6555 Quince Road in Memphis, Tennessee. Regional One Health Imaging will provide MRI and other imaging modalities, including computed tomography (CT), fluoroscopy, ultrasound, mammography, and x-ray services, that are provided by Regional One Health (f/k/a The Regional Medical center at Memphis or the Med), the parent company's 631 bed hospital located at 877 Jefferson Avenue in downtown Memphis. The applicant maintains that the project stems, in large part, from the owner's plans to shift outpatient imaging services from the hospital campus to the proposed ODC to improve access, meet anticipated demand, and provide imaging services support for the development of a "medical neighborhood concept" focusing on intensive ambulatory, primary care, therapy, dedicated pharmacy and selected physician practice services.

Ownership

- Regional One Health Imaging is a new limited liability corporation (LLC) formed in June 2014.
- The applicant is a wholly owned subsidiary of Shelby County Health Care Corporation d/b/a Regional One Health.
- The parent company also owns a 631 bed hospital located at 877 Jefferson Avenue in Memphis and has ownership interests in the existing medical office building at 6555 Quince Road in Memphis that will house the proposed ODC.
- The applicant states that it may retain a management entity in the future to operate the facility (a copy of the draft management agreement was included in the application).

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- The applicant LLC will be self-managed. However, it appears that it will maintain operational ties with imaging services operated by Regional One Health.

Facility Information

- Regional One Health Imaging, LLC will operate the proposed ODC with MRI in 5,275 square feet (SF) of leased space in an existing 5-story medical office building located on a 6 acre tract at 6555 Quince Road, Memphis, Tennessee.
- Constructed in the mid-90s, the existing building is owned by Regional One RH MOB 1 SPE, LLC, which, in turn, is 50% owned by Shelby County Health Care Corporation d/b/a Regional One Health. The building is zoned commercial with a development overlay. Its neighbors include retail business sites such as grocery stores, a strip mall and gas stations.
- Although not presently occupied by medical tenants, the landlord is in the process of converting use to medical office and other health related space focusing on the development of a "Medical Neighborhood" concept with the proposed ODC providing a wide range of imaging services support.
- The ODC will be located in renovated space on the first floor of the building. The cost to renovate the space will be offset, in part, with an improvement allowance by the landlord of up to \$110 per square foot. The applicant's share of the renovation cost is estimated at approximately \$249,000 or \$54.29 per square foot.
- The project's \$54.29/SF renovation cost compares favorably to recent approved Certificate of Need projects ranging from a low of \$159/SF to \$302/SF. *Please note: HSDA renovation costs by quartile are currently not available to use as a comparison for this project due to insufficient number of ODC projects from 2011 through 2013.*
- Build-out of the leased space will include space for the imaging services that are noted in the Floor Plan (Attachment B.I.V of the application) such as MRI, Fluoroscopy, and computed tomography.
- The architectural firm/construction manager documented that all construction related to imaging services will incorporate required shielding and safety related components. *Please note the description provided on page 25 of the 6/25/14 supplemental response.*
- The proposed ODC with MRI will contain a new wide bore 1.5 tesla Optima MRI unit financed by GE Healthcare per the terms contained in the revised equipment purchase quote contained in the June 25, 2014 supplemental response.
- The applicant anticipates initiating services at the outpatient diagnostic center in March 2016, subject to licensure by TDH. An overview of the project is provided on pages 10 - 14 of the application.

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Project Need

The applicant states that the proposed outpatient diagnostic center is needed for the following reasons:

- The proposed outpatient diagnostic center will provide multiple imaging modalities and increase access to services in a new facility. Current hospital MRI of parent company's hospital is operating above ideal MRI capacity and use is prioritized for inpatient and emergency room patients. Additionally, location on hospital campus is not conducive to growth of outpatient imaging services.
- Enhance linkages between University of Tennessee Medical Group (provides radiologists for imaging interpretation services) and Regional One Health through proposed ODC with opportunity for participation in owner's medical neighborhood concept under development.
- Improve continuity and access to care of Regional One Health's patient base by targeting and reducing problems with cancellations, long waiting times, no-shows and rescheduling of outpatient MRI patients as a result of "bumping" by inpatient and trauma care patients.
- More patient friendly facility for use by patients of ODC and Regional One Health outpatients with improved access, ample parking and availability of additional "medical neighborhood" services such as primary care, pharmacy and physical therapy.
- Add additional MRI capacity to meet estimated growth in Shelby County and meet current demand by patients of Regional One Health (as indicated by the Med's MRI utilization at levels in excess of 150% or more of the 3,600 MRI standard).
- Provide additional capacity to accommodate provider use of MRI as the preferred imaging modality of choice in lieu of nuclear medicine and X-Ray.

Service Area Demographics

Regional One Health Imaging's declared service area is Shelby County.

- The total population of the Tennessee portion of the service area is estimated at 943,812 residents in calendar year (CY) 2014 increasing by approximately 1.1% to 954,012 residents in CY 2018.
- Residents age 65 and older account for approximately 13% of the total county population compared to 16% statewide.
- The age 65 and older population is expected to increase by 15% from 108,570 individuals in CY2014 to 124,946 individuals in 2018.
- The overall Tennessee statewide population is projected to grow by 3.7% from 2014 to 2018
- The median age is estimated at age 34 in Shelby County compared to age 33 statewide.

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- The proportion of TennCare enrollees of the service area population is 24.3%, compared with the state-wide average of 18.1%.

Historical Utilization

As a new Outpatient Diagnostic Center, the applicant has no prior utilization. The inventory and utilization of MRI units in Shelby County between CY2010 to CY2013 is shown in the table below.

Fixed Unit MRI 3-Year Trend

Provider	Type	County	# of MRI s (1)	2011	2012	2013	% Stand ard(2)	Percent Changed
Baptist Memorial Hospital - Collierville	Hosp	Shelby	1	1,891	1,734	1,593	55%	-15.8%
Baptist Memorial Hospital - Memphis	Hosp	Shelby	3	12,052	11,913	11,280	131%	-6.4%
Baptist memorial Hospital for Women	hosp	Shelby	1	NA	NA	72	3%	0%
Baptist Rehabilitation - Germantown	Hosp	Shelby	1	1,622	1,596	1,212	42%	-25.3%
Baptist Rehabilitation Germantown - Briarcrest MRI**	H-Imagin g	Shelby	0.5	585	650	613	43%	+4.8%
Campbell Clinic - Union	PO	Shelby	1	2,290	2,155	2,539	88%	+10.9%
Campbell Clinic Inc.	PO	Shelby	1	6,502	6,321	5,547	193%	-14.7%
Delta Medical Center	Hosp	Shelby	1	1,006	787	674	23%	-33.0%
Diagnostic Imaging PC - Memphis	RPO	Shelby	1	6,358	6,538	6,737	234%	+6.0%
Le Bonheur Children's Medical Center***	HOSP	Shelby	3	4,663	5,357	5,333	62%	+14.4%
Methodist Healthcare-Germantown Hospital	Hosp	Shelby	2	7,698	6,557	6,892	120%	-10.5%
Methodist Healthcare-North Hospital	Hosp	Shelby	2	6,058	6,092	6,003	104%	-0.9%
Methodist Healthcare-South Hospital	Hosp	Shelby	1	4,073	4,139	4,090	142%	+0.4%
Methodist Healthcare-University Hospital	Hosp	Shelby	3	9,677	9,803	10,524	122%	+8.8%
MSK Group PC - New Covington Pike	PO	Shelby	1	3,096	3,140	3,013	105%	-2.7%
MSK Group, PC - Briarcrest**	PO	Shelby	0.5	4,508	4,489	4,637	322%	+2.9%
Neurology Clinic, PC****	PO	Shelby	0.5	3,168	3,160	3,312	230%	+4.5%
Outpatient Diagnostic Ctr of Memphis (fka Diagnostic Health - Memphis)	ODC	Shelby	1	2,207	2,214	2,563	89%	+16.1%
Park Avenue Diagnostic Center	ODC	Shelby	2	3,080	2,681	2,075	36%	-32.6%
Regional Medical Center at Memphis (The Med)	Hosp	Shelby	1	3,927	4,491	4,131	143%	+5.2%
Semmes-Murphey Clinic (Humphreys Blvd)	PO	Shelby	2	7,300	6,490	6,277	109%	-14.0%

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St. Francis Hospital	Hosp	Shelby	3	5,482	5,393	5,326	62%	-2.8%
St. Francis Hospital - Bartlett	Hosp	Shelby	2	3,257	3,642	3,518	61%	+8.0%
St. Jude Children's Research Hospital	Hosp	Shelby	4	10,031	8,737	8,305	72%	-17.2%
Wesley Neurology Clinic, P.C.****	PO	Shelby	0.5	1,398	1,309	1,026	71%	-26.6%
West Clinic, P.C., The	ASTC/ ODC	Shelby	1	1,662	1,564	1,287	45%	-22.6%
Service Area			40	113,591	110,952	108,579	94%	-4.4%

**Baptist Rehab Briarquest equipment is shared with MSK Group Briarcrest

***Le Bonheur has 3 MRIs-2 standard pediatric MRIs and an iMRI which is used specifically for neurosurgery

****Neurology Clinic PC equipment is shared with West Neurology Clinic

(1) There were 40 MRI units in 2013, from 39 in 2012, and 39 in 2011 and 37 units in 2010.

(2) 3rd Year of service standard of 2,880 MRI procedures per year is applied

- There are 26 providers of MRI services in Shelby County with 40 full time equivalent, fixed MRI units and no mobile units. The most recent unit was added in October 2013 (new unit at Baptist Memorial Hospital for Women - CN1211-058A).
- The chart above indicates that MRI volumes in the service area decreased by 4.4% between 2011 and 2013. Despite the decline in total volumes, MRI utilization increased for 8 of the 26 providers during the period
- Overall, the MRIs in the service area were operating at 94.3% of the MRI volume standard in 2013. The utilization equates to approximately 98% of the standard when excluding the new MRI unit at Baptist Hospital for Women (operated only 3 of 12 months in 2013) and the MRI units of the West Cancer Center (1 unit) and St. Jude's Hospital (4 units) due to the nature and scope of their specialty care services.
- There are 4 outstanding CONs in Shelby County for MRI services that are listed in the section immediately following the staff summary. Of these, one CON project will add an additional MRI unit to the service area. There were 40 MRI units operating in Shelby County as of 8/28/14.

The table below from HSDA Equipment Registry records illustrates the use of Shelby County MRI providers by residents of the county as a percentage of their total utilization in 2012.

Provider	Procedures by Residents Of Shelby County	Total MRI Procedures 2012	Procedures by Shelby Residents as a % of Total
Baptist Memorial Hospital - Collierville	875	1,122	78.6%
Baptist Memorial Hospital - Memphis	7,662	9,159	83.7%
Baptist Rehabilitation - Germantown	878	1,007	91.5%
Baptist Rehabilitation Germantown - Briarcrest MRI	526	570	95.3%
Campbell Clinic - Union	1,133	1,207	96.1%
Campbell Clinic Inc	3,891	4,718	82.5%
Diagnostic Imaging PC - Memphis	5,562	6,343	87.7%
LeBonheur Children's Medical Center	2,133	3,006	70.9%

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Methodist Healthcare-Germantown Hospital	5,162	5,608	92.1%
Methodist Healthcare-North Hospital	4,667	5,882	79.3%
Methodist Healthcare-South Hospital	3,629	3,651	99.3%
Methodist Healthcare-University Hospital	7,097	7,662	92.6%
MSK Group PC - New Covington Pike	2,355	2,829	83.2%
MSK Group, PC - Briarcrest	3,603	3,955	91.1%
Neurology Clinic, PC	2,681	3,001	89.3%
Outpatient Diagnostic Center of Memphis	1,443	2,046	70.5%
Park Avenue Diagnostic Center	2,121	2,304	92.1%
Regional One Health (f/k/a The Regional Medical Center at Memphis)	3,209	3,593	90.1%
Semmes Murphey Clinic (Humphreys Blvd)	3,698	4,624	79.9%
St. Francis Hospital	4,354	4,640	93.8%
St. Francis Hospital - Bartlett	2,818	3,503	80.4%
Wesley Neurology Clinic, P.C.	922	1,086	84.9%
West Clinic, P.C., The	947	1,159	81.7%
Within the Service Area Total	71,366	82,675	86.3%

- This table provides an estimate of the use of MRI providers by Shelby County residents, and residents of other TN counties and states.
- The table reflects that approximately 86.3% of total provider utilization was by residents of Shelby County in calendar year 2012. Use of the owner's hospital by residents of the county was above the group MRI average during the period.
- Of the 26 MRI providers, 10 were highly utilized by Shelby County residents with use rates of 90% or higher.
- Delta Medical Center and St. Jude do not report MRI utilization by patient origin and are excluded from the table for this reason.

The chart provided below identifies computed tomography (CT) scanning trends for the proposed ODC's service area. The chart is based on information from HSDA records as of 8/29/14 and is different from the attachment in the application.

Year	Units	Procedures	Procedures/Unit
2011	48	292,768	6,099/unit
2012	45	282,609	6,280/unit
2013	47	283,422	6,030/unit
'11-'13 % Chg.	-1 unit	-3% decrease	-----

Source: HSDA Equipment Registry; as of 8/28/14

Projected Utilization

The applicant provides historical MRI utilization of Regional One Health (ROH) and projected MRI utilization for both providers in Year 1 and Year 2 as follows:

Regional One Health Provider	2013	2014 (Est)	Year 1	Year 2
Applicant ODC	NA	NA	2,363	2,611
ROH (hospital)	4,131	4,600	3,365	3,365
Total	4,131	4,600	5,728	5,976
As a % of 2,880 MRI standard	143%	160%	99.5%	104%

Source: page 20 of 6/25/14 supplemental response

Projected utilization for all imaging modalities of the proposed ODC in Year 1 compared to the utilization of the hospital in 2013 is provided in the table below

Imaging Modalities	Applicant ODC Year 1	Hospital Outpatient 2013
MRI	2,363	2,513
CT	1,545	11,893
All Other	8,671	35,915
Total	12,579	50,321

Source: page 5 of 6/25/14 supplemental response

Project Cost

Major costs of the \$5,345,900 total estimated project cost are as follows:

- Facility Lease - \$1,392,600 or 26.4% of total cost (higher cost compared to estimated \$1,151,533 fair market value of the space for the proposed ODC)
- New imaging equipment cost of \$2,115,150, including MRI unit cost of \$1,069,687, plus equipment maintenance cost of \$1,008,000. Equipment cost amounts to approximately 58.4% of the total project cost.
- Applicant's share of the cost to renovate the 4,587 square foot ODC (before common area allowance factor) is estimated at \$249,000 or approximately \$54.29 per square foot.
- For other details on Project Cost, see the Project Cost Chart on page 36 of the application.

Historical Data Chart

As a newly formed Tennessee corporation, the applicant has no prior record of ODC fiscal operations. Although a historical data chart was requested for the MRI service of the hospital owned by the applicant's parent, the applicant stated that the hospital does not have discrete financial statements for the imaging department, inclusive of MRI.

REGIONAL ONE HEALTH IMAGING, LLC

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Projected Data Chart

As noted in the application, Regional One Health Imaging, LLC will offer a full range of imaging modalities including MRI, CT, fluoroscopy, ultrasound and X-ray. Highlights of the financial performance of the proposed ODC are as follows:

- Increase of approximately 20% from 12,579 total imaging procedures in Year 1 to 15,095 procedures in Year 2.
- Gross revenues of \$7,758,909 in Year 1 and \$9,310,691 in Year 2. After deductions of approximately \$6,149,700 for charity, bad debt and contractual adjustments, net operating revenue is projected at \$3,160,979 in Year 2.
- Total operating expenses increase in Year 2 by approximately 29% due largely to the initiation of equipment service agreements and lease payments.
- Despite the increase in operating expenses, Net Operating Income is favorable in the first year and second years of operation.
- The combination of equipment financing, a tenant improvement allowance and funding support from cash reserves of the parent company is sufficient to cover initial out of pocket or start-up expenses of the proposed ODC (estimated at \$817,350)
- The applicant expects to serve 631 charity care patients in Year 1 increasing to 756 patients in Year 2 (*page 27 of 6/25/14 supplemental response*).

Charges

- The proposed ODC's average gross charge for MRI is \$1,794 per procedure. After deductions, the projected net charge is \$609 per procedure.
- According to HSDA records, the \$1,794 average gross charge is below the median and 3rd quartile charges of \$2,106 and \$3,312, respectively.
- The applicant's proposed CT average gross charge per procedure is approximately \$750. The charge falls below the 1st, median, and 3rd quartile charge range documented in the HSDA Equipment Registry.
- As noted in the TDH summary, the average gross charge for all imaging services is \$555 per procedure. After deductions of \$366 the average net charge is approximately \$188 per procedure.

Medicare/TennCare Payor Mix

- The applicant expects to contract with all TennCare managed care plans available in the service area including UHC/Americhoice, Blue Care and TNCare Select.
- The TennCare/Medicare projected payor mix for Year 1 will be similar to the payor mix of the hospital's MRI service (18% Medicare and 22% TennCare). Of the proposed ODC's 2,363 total estimated MRI procedures, 25% are Medicare and 25% are TennCare procedures in the first year of the project.

REGIONAL ONE HEALTH IMAGING, LLC

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- The payor group with the most projected revenue is Commercial at 40% of total projected gross revenue in Year 1.

Financing

Funding for the proposed ODC consists of cash reserves from the parent and other sources, including equipment financing and a tenant improvement allowance of \$110 per square foot. A June 11, 2014 letter from the CFO of the proposed ODC's parent company, Shelby County Health Care Corporation, confirms available cash to fund the projected start-up costs of approximately \$817,350 from cash reserves.

As a new ODC with no record of financial performance, there are no financial statements for the applicant LLC. However, review of Regional One Health's audited financial statements for the period ending June 30, 2013 revealed a combined cash and cash equivalents amounts of \$15,471,067.00 and current assets, excluding capital, of approximately \$194,837,487.00. Note: the Balance Sheet and Financial Statements with accompanying notes by the auditor are provided in the application.

Staffing

The applicant's proposed clinical staffing for the proposed project includes 1 full time administrator, 2 reception/intake personnel and 4 equipment technicians.

Licensure/Accreditation

The proposed ODC will seek licensure by the Tennessee Department of Health. The hospital owned by the parent is presently licensed and Joint Commission accredited.

Corporate documentation, a draft management agreement, real estate lease information, vendor equipment quotes, and a copy of the agreement for the provision of graduate medical education between Regional One Health and The University of Tennessee College of Medicine at Memphis are on file at the Agency office and will be available at the Agency meeting.

Should the Agency vote to approve this project, the CON would expire in two years.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT:

There are no other Letters of Intent, denied or pending applications or outstanding Certificates of Need for this applicant.

Note: Shelby County Health Care Corporation d/b/a Regional One Health has a financial interest in this project and the following:

REGIONAL ONE HEALTH IMAGING, LLC

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Regional One Health, CN1311-044A, has an outstanding Certificate of Need that will expire on May 1, 2016. The project was approved at the March 26, 2014 Agency meeting for the establishment of a twenty (20) bed nursing home that will be dually certified for Medicare/Medicaid and will operate as a department of the hospital. The twenty (20) nursing home beds are subject to the 125 bed Nursing Home Bed Pool for the July 2013 to June 2014 state fiscal year period. The estimated project cost is \$300,000.00. *Project Status Update: a 9/4/14 e-mail from a representative for the applicant stated that internal studies are in progress. The project has not been implemented since approval of the Certificate of Need in March 2014.*

Shelby County Health Care Corporation d/b/a The Regional Medical Center at Memphis, CN1208-037A, has an outstanding Certificate of Need that will expire on January 1, 2016. It was approved at the November 14, 2012 Agency meeting to convert ten (10) medical surgical beds to ten (10) inpatient rehabilitation beds, add three operating rooms (ORs) dedicated to outpatient surgery in the Turner Tower, and renovate and relocate medical surgical beds to the Turner Tower, one of the newer buildings on the MED campus built in 1992. The estimated project cost is \$28,400,000.00. **Project Status:** *A representative of the applicant reported in a 9/4/14 e-mail that the project has been completed and the building has been fully occupied since the last update received on 3/10/14. HSDA staff has requested and is awaiting a Final Project Completion Report from the applicant.*

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no Letters of Intent or denied or pending applications for similar service area entities proposing this type of service.

Outstanding Certificate of Need

West Tennessee Imaging, LLC, CN1403-008A, has an outstanding Certificate of Need that will expire on August 1, 2016. The CON was approved at the June 25, 2014 Agency meeting for the establishment of an Outpatient Diagnostic Center (ODC), the acquisition of magnetic resonance imaging (MRI) equipment and the initiation of MRI services by relocating an existing ODC with MRI service from 5130 Stage Road, Memphis, TN to a new facility in approximately 8,258 square feet of new construction of an existing two-story building at 7600 Wolf River Boulevard, Memphis (Shelby County), TN 38120, a distance of approximately ten (10) miles. Upon licensing of the proposed ODC, the license for the Outpatient Diagnostic Center of Memphis will be relinquished and MRI services at that location will cease. The estimated project cost is \$10,123,989.00. *Project Status Update: the project was recently approved.*

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Methodist Healthcare-Memphis Hospitals d/b/a West Cancer Center, CN1311-043 has an outstanding Certificate of Need that will expire on April 1, 2017. The CON was approved at the February 26, 2014 Agency meeting for the establishment of an off-campus outpatient department which included a comprehensive cancer center and two hospital based ambulatory operating rooms. The proposed project will include the following: 1) relocation of linear accelerator, positron emission tomography/computed tomography (PET/CT), magnetic resonance imaging (MRI) and computed tomography (CT) services and equipment; 2) replacement of MRI equipment; and 3) an additional linear accelerator. The estimated project cost is **\$60,554,193.00**. *Project Status Update: according to a 9/10/14 e-mail from a representative of the applicant, demolition and renovations of the facility are underway. The project is on schedule and within budget.*

Methodist Healthcare-dba Le Bonheur Children's Hospital, CN1311-042, has an outstanding Certificate of Need that will expire on April 1, 2017. The CON was approved at the February 26, 2014 Agency meeting for the establishment of a pediatric center and to initiate and acquire magnetic resonance imaging (MRI) and computed tomography (CT) service and equipment. The facility will be located at 100 North Humphreys Boulevard, Memphis (Shelby County), TN and will be operated as an outpatient department of LeBonheur Children's Hospital. The estimated project cost is **\$26,798,857**. *Project Status Update: according to a 9/10/14 e-mail from a hospital representative, the project should begin in the near future when the West Clinic staff vacates the building in order for major renovations to begin.*

Baptist Memorial Hospital for Women, CN1211-058A, has an outstanding Certificate of Need that will expire April 1, 2016. The CON was approved at the February 27, 2013 Agency meeting for the construction of an Emergency Department dedicated for pediatric patients and the initiation of Magnetic Resonance Imaging (MRI) services on the Baptist Women's campus. The project will involve 37,500 square feet of new construction. The project does not involve the addition of beds or any other service for which a Certificate of Need is required. The estimated project cost is **\$14,105,241.00**. *Project Status: the 1/27/14 Annual Progress Report (APR) stated that sitework and site utility work was underway in preparation of beginning major construction of the new building addition. The APR also stated that the MRI unit was installed and MRI services were initiated on October 23, 2013. Per a 9/5/14/ e-mail from a hospital representative, construction on the first and second floors of the hospital is approximately 50% to 60% complete. Delays are not anticipated in completing the project by the June 2015 expiration date.*

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND

REGIONAL ONE HEALTH IMAGING, LLC

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CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

PJG; 9/04/14

LETTER OF INTENT



JUNE 9, 2014

LETTER OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Commercial Appeal which is a newspaper of general
(Name of Newspaper)

circulation in Shelby and surrounding Counties, Tennessee on or before June 09, 2014 for one day.
(County) (Month / day) (Year)

=====

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601, et seq., and the Rules of the Health Services and Development Agency, that Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119 ("Applicant"), a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner"), owned and managed by itself, is applying for a Certificate of Need for the establishment of an Outpatient Diagnostic Center, including the initiation of MRI services along with CT, Mammography, X-ray/fluoroscopy and Ultrasound services. There are no new licensed beds and no major medical equipment involved with this project, other than what is mentioned above. It is proposed that the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$5,800,000.00, including filing fee.

The anticipated date of filing the application is: June 13, 2014.

The contact person for this project is E. Graham Baker, Jr. Attorney
(Contact Name) (Title)

who may be reached at: his office located at 2021 Richard Jones Road, Suite 120
(Company Name) (Address)

Nashville TN 37215 615 / 370-3380
(City) (State) (Zip Code) (Area Code / Phone Number)

E. Graham Baker, Jr. June 09, 2014 graham@grahambaker.net
(Signature) (Date) (E-mail Address)

=====

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

=====

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

=====

* The project description must address the following factors:

1. General project description, including services to be provided or affected.
2. Location of facility: street address, and city/town.
3. Total number of beds affected, licensure proposed for such beds, and intended uses.

COPY

Regional One Health
Imaging, LLC

CN1406-024



**CERTIFICATE OF NEED
APPLICATION**

for

**Establishment of an
Outpatient Diagnostic Center**

by

**Regional One Health Imaging, LLC
6555 Quince Road
Memphis (Shelby County), Tennessee 38119**

**STATE OF TENNESSEE
HEALTH SERVICES AND DEVELOPMENT AGENCY
502 Deaderick Street
9th Floor
Nashville, Tennessee 37243
615/741-2364**

FILING DATE: June 13, 2014

SECTION A: APPLICANT PROFILE

27

1. Name of Facility, Agency or InstitutionRegional One Health Imaging, LLC

Name

6555 Quince Road

Street or Route

Shelby

County

Memphis,

City

TN

State

38119

Zip Code

2. Contact Person Available for Responses to QuestionsE. Graham Baker, Jr.

Name

Attorney

Title

Anderson & Baker

Company Name

graham@grahambaker.net

e-mail address

2021 Richard Jones Road, Suite 120

Street or Route

Nashville,

City

TN

State

37215

Zip Code

Attorney

Association with Owner

615/370-3380

Phone Number

615/221-0080

Fax Number

3. Owner of the Facility, Agency, or InstitutionShelby County Health Care Corporation, d/b/a Regional One Health

Name

901/545-7928

Phone Number

877 Jefferson Avenue

Street or Route

Shelby

County

Memphis,

City

TN

State

38103

Zip Code

4. Type of Ownership of Control (Check One)A. Sole Proprietorship B. Partnership C. Limited Partnership D. Corporation (For-Profit) E. Corporation (Not-for-Profit) F. Governmental (State of Tenn.
or Political Subdivision) G. Joint Venture H. Limited Liability Company I. Other (Specify) X

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See *Attachment A.4*.

SECTION A:

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APPLICANT PROFILE

Please enter all Section A responses on this form. All questions must be answered. If an item does not apply, please indicate "N/A". *Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment.*

Section A, Item 1: Facility Name must be applicant facility's name and address must be the site of the proposed project.

Response: The Applicant is Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119. The Applicant is a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health.

Section A, Item 3: Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence, if applicable, from the Tennessee Secretary of State.

Response: The requested documents for the Applicant are included in the application as *Attachment A.4*.

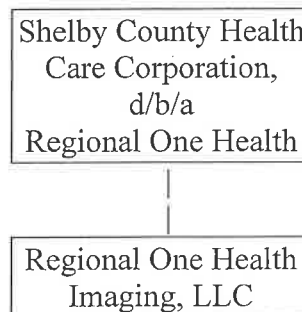
Section A, Item 4: Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. ²⁸ Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% or more ownership interest. In addition, please document the financial interest of the applicant, and the applicant's parent company/owner in any other health care institution as defined in Tennessee Code Annotated, §68-11-1602 in Tennessee. At a minimum, please provide the name, address, current status of licensure/certification, and percentage of ownership for each health care institution identified.

Response: The Applicant is Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119. See *Attachment A.4*. The Applicant is a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health. See *Attachments A.4.1 and A.4.2*.

Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner"), is a 501(c)3 non-profit corporation, chartered in 1981, the purpose of which is to "...provide a hospital that will be available to Shelby County residents who are in need, regardless of their financial status" (*July 1, 1981 Lease Agreement between Shelby County Health Care Corporation and Shelby County, Tennessee*).

The Owner owns its hospital at 877 Jefferson Avenue, Memphis (Shelby County), Tennessee. The Applicant does not own any other health care institutions as defined above.

See the following chart:



Section A, Item 5: For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract

Please describe the management entity's experience in providing management services for the type of the facility, which is the same or similar to the applicant facility. Please describe the ownership structure of the management entity.

Response: The Applicant will be self-managed. However, it is considering the possibility of hiring a management entity for the Outpatient Diagnostic Center ("ODC") which specializes in managing ODCs. However, no decisions have been made either to have an outside management company, or if so, which one. With that said, Regional One Health Imaging, LLC is furnishing a draft management contract as *Attachment A.5*, which contract would serve as a basis for developing such a contract in the future, if necessary. In addition, the Projected Data Chart for the outpatient includes an expense of \$111,366 and \$126,439 in Years 1 and 2, respectively, which is thought to be a reasonable amount for such a contract if executed. Obviously, if Regional One Health Imaging, LLC decides to self-manage the ODC, this expense would be absorbed in personnel salary costs.

Section A, Item 6: For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid on the date of the Agency's consideration of the certificate of need application.

Response: The Applicant will be located on a 6.002 acre site in Memphis. The site is owned by Regional One RH MOB 1 SPE, LLC, which is 50% owned by Shelby County Health Care Corporation, and includes an existing Medical Office Building ("MOB"). The entire site (land and building) has been leased to Shelby County Health Care Corporation (See *Attachment A.6*). Shelby County Health Care Corporation, in turn, will sub-lease (See *Attachment A.6.1*) approximately 4,587 GSF for the ODC only. The common area factor of 1.150 is then multiplied by the number of GSF in the ODC to arrive at 5,275 GSF that will be leased in the building.

The Fair Market Value ("FMV") of the leased space is \$1,151,532.50, and the lease cost will be \$1,392,600. Therefore, the lease value will be used in the Project Costs Chart.

The owner of the property has approved the sublease to the Applicant (see *Attachment A.6.2*).

The build out costs for the ODC will be shared by the Landlord and the Applicant. The Applicant will pay \$249,000 toward the build out costs for the ODC, which amount is included in the Project Costs Chart.

5. Name of Management/Operating Entity (If Applicable)

Please see Note on Page 5

Name _____

Street or Route _____

County _____

City _____

State _____

Zip Code _____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. Please see *Attachment A.5*.

6. Legal Interest in the Site of the Institution (Check One)

A. Ownership _____

B. Option to Purchase _____

C. Lease of X Years 11

D. Option to Lease _____

E. Other (Specify) _____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See *Attachment A.6.1*.

7. Type of Institution (Check as appropriate--more than one response may apply.)

A. Hospital _____

B. Ambulatory Surgical
Treatment Center (Multi-Specialty) _____

C. ASTC _____

D. Home Health Agency _____

E. Hospice _____

F. Mental Health Hospital _____

G. Mental Health Residential
Treatment Facility _____

H. Mental Retardation Institutional
Habilitation Facility (ICF/MR) _____

I. Nursing Home _____

J. Outpatient Diagnostic Center X

K. Recuperation Center _____

L. Rehabilitation Facility _____

M. Residential Hospice _____

N. Non-Residential Methadone
Facility _____

O. Birthing Center _____

P. Other Outpatient Facility
(Specify) _____

Q. Other (Specify) _____

8. Purpose of Review (Check as appropriate--more than one response may apply.)

A. New Institution X

B. Replacement/Existing Facility _____

C. Modification/Existing Facility _____

D. Initiation of Health Care Service
as defined in TCA §68-11-1607(4) X

E. Specify: establish ODC/MRI, CT,
Mammography, X-ray/fluoroscopy
& Ultrasound services X

F. Discontinuance of OB Services _____

G. Acquisition of Equipment _____

H. Change In Bed Complement
(Please note the type of change
by underlining the appropriate
response: Increase, Decrease,
Designation, Distribution,
Conversion, Relocation) _____

I. Change of Location _____

J. Other (Specify) _____

9. Bed Complement Data

33

Please indicate current and proposed distribution and certification of facility beds.

Response: Not Applicable.

	Current Beds		Staffed	Beds	TOTAL
	<u>Licensed</u>	<u>CON*</u>	<u>Beds</u>	<u>Proposed</u>	<u>Beds at Completion</u>
A. Medical	_____	_____	_____	_____	_____
B. Surgical (Orthopedic)	_____	_____	_____	_____	_____
C. Long-Term Care Hospital	_____	_____	_____	_____	_____
D. Obstetrical	_____	_____	_____	_____	_____
E. ICU/CCU	_____	_____	_____	_____	_____
F. Neonatal	_____	_____	_____	_____	_____
G. Pediatric	_____	_____	_____	_____	_____
H. Adult Psychiatric	_____	_____	_____	_____	_____
I. Geriatric Psychiatric	_____	_____	_____	_____	_____
J. Child/Adolescent Psychiatric	_____	_____	_____	_____	_____
K. Rehabilitation	_____	_____	_____	_____	_____
L. Nursing Facility (non-Medicaid Certified)	_____	_____	_____	_____	_____
M. Nursing Facility Level 1 (Medicaid only)	_____	_____	_____	_____	_____
N. Nursing Facility Level 2 (Medicare only)	_____	_____	_____	_____	_____
O. Nursing Facility Level 2 (dually-certified)	_____	_____	_____	_____	_____
P. ICF/MR	_____	_____	_____	_____	_____
Q. Adult Chemical Dependency	_____	_____	_____	_____	_____
R. Child & Adolescent Chemical Dependency	_____	_____	_____	_____	_____
S. Swing Beds	_____	_____	_____	_____	_____
T. Mental Health Residential Treatment	_____	_____	_____	_____	_____
U. Residential Hospice	_____	_____	_____	_____	_____
TOTAL	_____	_____	_____	_____	_____

* CON Beds approved but not yet in service

10. Medicare Provider Number will be applied for
Certification Type Outpatient Diagnostic Center

11. Medicaid Provider Number will be applied for
Certification Type Outpatient Diagnostic Center

12. If this is a new facility, will certification be sought for Medicare and/or Medicaid?

Response: This is a new facility, and certification for both Medicare and Medicaid will be sought.

13. *Identify all TennCare Managed Care Organizations/Behavioral Health Organizations (MCOs/BHOs) operating in the proposed service area. Will this project involve the treatment of TennCare participants? Yes If the response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted or plans to contract. Discuss any out-of-network relationships in place with MCOs/BHOs in the area.*

Response: Regional One Health has TennCare contracts with UHC/Americhoice, Blue Care and TNCare Select. The Applicant, as a wholly-owned subsidiary, will pursue the same contracts.

The Applicant will contract with any new MCOs that provide services in the area.

Attachment A.13 shows the grand divisions of the State of Tennessee, by MCO coverage.

NOTE: *Section B is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. Section C addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.*

SECTION B: PROJECT DESCRIPTION

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Response: Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119 ("Applicant"), a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner" or "Hospital"), owned and managed by itself, is applying for a Certificate of Need for the establishment of an Outpatient Diagnostic Center ("ODC"), including the initiation of MRI services along with CT, Mammography, X-ray/fluoroscopy and Ultrasound services. There are no new licensed beds and no major medical equipment involved with this project, other than what is mentioned above. It is proposed that the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be \$5,345,900.28, including filing fee. It is important to note that \$4,516,549 of this amount will be lease costs, which are operational costs. Therefore, the only front-end costs required to implement this project will be only \$817,350.00.

As just stated, the Applicant requests permission to establish an ODC, including the initiation of MRI services. Other services planned for the ODC include CT, Mammography, X-ray/fluoroscopy, and Ultrasound services. The ODC will be located on the first floor of an existing medical office building ("MOB") located on Quince Road in the East Memphis area.

The Hospital provides all of the stated services at its facility on Jefferson Avenue in downtown Memphis. However, such diagnostic services are over-utilized at the Hospital due to a combination of factors, including inpatient use, emergency patient use, and the fact that the Hospital operates the third most active Trauma Center in the United States. Due to the high demand at the Hospital, the scheduling of diagnostic services – especially elective services – result in long wait times for patients and providers alike. The Applicant projects future need/demand for diagnostic services at the same rate utilization of these services have increased at the Hospital. Therefore, additional diagnostic services are needed, and it was deemed prudent to open up an ODC in a more convenient location for outpatients. The Hospital already has the MOB under lease, and sufficient space is available on the first floor of that building for the ODC.

The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from

31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the “regional” nature of the Applicant’s service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant’s service area will surely mimic that of the hospital.

Based on an internal zip code patient analysis at Regional One Health, approximately 80% of the Hospital’s patients requiring outpatient diagnostic services reside within a 20 minute drive of the ODC location. Further, the location of this new ODC will be much closer and more accessible for those patients who reside in the southern and southeastern portion of our service area.

The Landlord and the Applicant will share in the costs necessary to renovate the existing space. The Applicant’s portion of that cost will be \$249,000. The Applicant has already incurred legal, administrative and consultant costs of approximately \$50,000, and fixed equipment (but not diagnostic equipment) will cost an additional \$518,350. The ODC will be located in a 4,587 GSF space, but common area allowances increase the amount of leased space to 5,275 GSF. The lease cost for the space (\$1,392,600) exceeds the fair market value (“FMV”) of the space (or, \$1,151,532.50), so the higher lease cost is used in the Project Costs Chart. Diagnostic equipment (MRI, CT, Mammography, X-ray/Fluoroscopy, and Ultrasound equipment) will be leased. The purchase costs (\$2,115,948.79) exceed the lease costs (\$2,106,000.00) for the equipment, so the higher purchase cost for the equipment is used in the Project Costs Chart. Please note that equipment maintenance costs (included in the Project Costs Chart) are free in Year 1, but start up in the 2nd and succeeding years. Therefore, the Projected Data Chart will show more expenses in Year 2. Even so, we anticipate positive cash flow.

We anticipate having only 6 staff initially, including 1 administrator, 2 reception/intake personnel, and 4 equipment technicians. This staff is readily available either at work at the Hospital, or through our extensive personnel files. We anticipate no problem in filling these few positions.

II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

- A. Describe the construction, modification and/or renovation of the facility (exclusive of major Medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of \$5 million) and other facility projects (construction cost in excess of \$2 million) should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.**

If the project involves none of the above, describe the development of the proposal.

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The Hospital provides all of the stated services at its facility on Jefferson Avenue in downtown Memphis. However, such diagnostic services are over-utilized at the Hospital due to a combination of factors, including inpatient use, emergency patient use, and the fact that the Hospital operates the third most active Trauma Center in the United States. Due to the high demand at the Hospital, the scheduling of diagnostic services -- especially elective services -- result in long wait times for patients and providers alike. The Applicant projects future need/demand for diagnostic services at the same rate utilization of these services have increased at the Hospital. Therefore, additional diagnostic services are needed, and it was deemed prudent to open up an ODC in a more convenient location for outpatients. The Hospital

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<u>Outpatient Procedure</u>	<u>ODC</u> <u>Year 1</u>	<u>ODC</u> <u>Year 2</u>	<u>Hospital</u> <u>O/P 2012</u>	<u>Hospital</u> <u>O/P 2013</u>
MRI	2,363	2,611	2,544	2,513
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All Other	8,671	10,247	38,525	35,915
Total Volume	12,579	15,095	51,899	50,321

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We anticipate having only 6 staff initially, including 1 administrator, 2 reception/intake personnel, and 4 equipment technicians. This staff is readily available either at work at the Hospital, or through our extensive personnel files. We anticipate no problem in filling these few positions.

From a historical standpoint, the Hospital traces its roots to the City of Memphis Hospital, built in 1936, consisting primarily of open wards for inpatient beds. Through the years, additions have been made to the campus as more demands were placed on the hospital and more services were offered. That original building, renamed the John Gaston Building, no longer exists. The City of Memphis transferred ownership of the hospital to Shelby County, and in around 1983/84 the hospital started doing business as Regional Medical Center at Memphis/The MED. Today, Regional One Health is licensed for 631 hospital beds plus 20 SNF beds, and serves as a regional medical center for patients not only from Shelby County, but from an additional 30 Tennessee Counties and 10 other states.

From a historical point of view, the Applicant has not enjoyed financial success in the past as other hospitals in Memphis improved their respective campuses and added services. Following a brief period of time when a management company was brought in, a new senior administration was hired recently (2010) to oversee the improvement of both the physical plant and to enhance patient services at the facility. Both the management company and new senior management have been able to cut expenses, streamline processes, rework contracts, enhance the quality of services, and improve the financial viability of Regional One Health. This CON project is the next phase of planned improvements to the campus and in outpatient settings in an effort to further improve both the quality of services being provided to our patients and our physical plant. At present, there is no formally-adopted long range plan, but several areas of the campus continue to be studied by senior leadership, key department heads, and the Board of Directors.

See *Attachment B.II.A.1* for a chart showing MRI utilization in Shelby County, 2010 – 2012. *Attachment B.II.A.2* shows CT utilization, and *Attachment B.II.A.3* shows the top 10 anticipated CPT codes for both MRI and CT at our ODC.

Please note that the 2012 JAR reported incorrect information on MRI utilization at the Hospital. The correct number of MRI procedures that should have been reported is 4,491. That correct number was given to the HSDA for equipment utilization, and that number is being utilized within this application.

This project is financially feasible, based on cost information gathered by the HSDA for recent renovation projects, as seen in the next chart:

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	\$1,235,500	\$159.69
CN1103-008	795	\$127,500	\$160.38
CN1304-014	847	\$150,000	\$177.10
CN1304-013	2,080	\$520,000	\$250.00
CN1203-014	5,320	\$1,605,150	\$301.72

June 30, 2014

B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

Response: Not applicable, as no beds are involved in this project.

C. As the applicant, describe your need⁴¹ to provide the following health care services (if applicable to this application):

1. Adult Psychiatric Services
2. Alcohol and Drug Treatment for Adolescents (exceeding 28 days)
3. Birthing Center
4. Burn Units
5. Cardiac Catheterization Services
6. Child and Adolescent Psychiatric Services
7. Extracorporeal Lithotripsy
8. Home Health Services
9. Hospice Services
10. Residential Hospice
11. ICF/MR Services
12. Long-term Care Services
13. **Magnetic Resonance Imaging (MRI)**
14. Mental Health Residential Treatment
15. Neonatal Intensive Care Unit
16. Non-Residential Methadone Treatment Centers
17. Open Heart Surgery
18. Positron Emission Tomography
19. Radiation Therapy/Linear Accelerator
20. Rehabilitation Services
21. Swing Beds

Response: Magnetic Resonance Imaging (MRI): The Hospital currently operates an MRI on its campus on Jefferson Street. As reported, the Hospital also has the third most active Trauma Center in the United States. As a trauma center, it is understandable that hospital resources, especially diagnostic services, are utilized to the maximum. The current MRI utilization has increased as follows:

2011 3,927 procedures;
2012 4,491 procedures; and
2013 4,766 procedures.

Another MRI is needed to offset this high utilization. The issue is where to locate that second MRI.

Following is a summary of the process followed in arriving at the need for another MRI, and the fact that it is most advantageous to place that additional unit in an outpatient setting:

ODC AT KIRBY BUILDING – SUMMARY

Overall Program Description:

- Regional One Health System, through Regional One Health Imaging, LLC, is proposing to develop an Outpatient Diagnostic Center (ODC) at an existing MOB at the Kirby Building at 6555 Quince Boulevard, to serve current patients and residents of Hospital's Primary and Secondary-East Service Areas. In addition, the ODC will serve the "medical neighborhood" that Regional One Health System is creating at the Kirby Building. This medical neighborhood is

envisioned as an intensive ambulatory, patient-centered practice model with a primary care core and selected key specialties, supported by the diagnostic services of this proposed ODC, therapies including PT and OT, satellite pharmacy, and selected specialty practices of UTMG physicians. This is intended to serve as a hub for Regional One's population health management strategy.

Types of Diagnostic Imaging Tests to be offered by the ODC include:

- ▶ Magnetic Resonance Imaging (MRI)
- ▶ Computed Tomography (CT)
- ▶ Bone Densitometry
- ▶ Ultrasound
- ▶ Digital Mammography
- ▶ Fluoroscopy
- ▶ X-ray

The Need for MRI:

- ▶ **Regional One is already exceeding HSDA guidelines for maximum operating capacity on its one MRI Unit.** The one MRI unit located at the Hospital is used for Inpatient, Emergency Department, Trauma Center, and Outpatient Care. As shown in the table below, for the past 4 fiscal years, Regional One not only has exceeded HSDA criteria for "Operational Efficiency" of one MRI unit, but also has exceeded what HSDA has defined as capacity of one machine. In FY2013 alone, the Regional Medical Center's volumes exceeded optimal operational efficiency by almost 1,900 procedures.

	MRI Procedures			
	FY10	FY11	FY12	FY13
Number of Procedures at ROHS (one machine)	3,882	4,412	4,491	4,766
% Change over Prior Year		14%	2%	6%
HSDA Criteria for "Operational Efficiency"	2,880	2,880	2,880	2,880
Number of Procedures Exceeding "Operational Efficiency"	1,002	1,532	1,611	1,886
HSDA Criteria for MRI Capacity	3,600	3,600	3,600	3,600
Number of Actual Procedures Exceeding HSDA Maximum Capacity Level	282	812	891	1,166
"No Shows" Estimated at 15% *	582	662	674	715
Assume 50% of "No Shows" Would Have Used ROHS If Scheduling had not been a barrier	291	331	337	357
Assume 5% of Patients Referred For MRI Never Made An Appointment Due to Long Wait List	388	441	449	477
TOTAL of "Excess," "No Shows" and "Never Scheduled"	961	1,584	1,677	2,000

- 43
- ▶ Outpatients are differentially affected by these exceedingly high volumes, experiencing waits of two weeks or more in scheduling an MRI. With a priority use of the existing Hospital MRI unit for inpatients and emergency department patients, the waiting time to schedule an Outpatient MRI is at least two weeks. As the State's trauma center for West Tennessee, Regional One's MRI is utilized to maximum capacity and, when necessary a trauma patient can bump a long-scheduled, elective Outpatient MRI. Regional One's Inpatients are sicker than the general hospital population, further increasing the demands on one MRI unit.
 - ▶ MRI scheduling wait time is a barrier to access for Outpatients and a challenge to maintain continuity of care. A recent analysis conducted by Regional One's Radiology Department indicates that excessive scheduling wait times have contributed to a high "no show" rate. In 2012 and, again in 2013, 15% of MRIs scheduled were "no shows." Those Regional One patients who are seeking care elsewhere experience a break in continuity of care. On the other hand, if those patients do not seek care elsewhere, they are not receiving the care they need. Either way, the analysis reveals that a second MRI is needed.
 - ▶ TennCare patients have been particularly hampered in scheduling at the Regional Medical Center. The Hospital estimates that, in 2013, more than 300 TennCare patients were "no-shows" for MRI procedures. Further, based on the long waits in scheduling an MRI at the Hospital, the suppressed demand from our TennCare patients referred by our Regional One physicians may be more than double that number when those referred by our physicians for care are deterred from scheduling their MRIs at the Hospital because of long waits.
 - ▶ We do not know whether these Regional One TennCare patients ("No-Shows" and "Referred but not scheduled") have gone elsewhere or whether they did not receive the care that was prescribed by their physician. Either way, this suppressed demand is both a break in the continuity of care rendered by Regional One and an access issue.
 - ▶ We would expect that with the convenience in scheduling, ease of travel to this location, parking at the door, and other amenities provided at the Kirby Building, Regional One Health Imaging, LLC should be able to recover this suppressed demand in the TennCare and other populations we serve, thereby improving the medical management of our patients' health care.
 - ▶ Self-Pay patients have limited choice in Shelby County and have been differentially exposed to scheduling waits. In addition to "no shows," we also have observed that many patients when faced with too long waits for appointments, never follow-up on their care at all. Patients with resources have choices. Regional One Health, as the County Healthcare Facility, is the only choice available to elective self-pay patients.
 - ▶ There is a need to provide for market growth and the projected increased use of the modality.
 - Market growth for Outpatient MRI between 2012 and 2022 is projected by the Health Care Advisory Board to be 24% -- a compound growth rate of more than 2% per year
 - Current MRI units (41) reported to HSDA 108,456 total procedures in 2012. This results in an average utilization per machine of 2,645 in 2012, just under HSDA's optimal operational efficiency standard of 2,880 procedures per unit. Applying the compound annual growth rate of approximately 2.2% per year projected by the HealthCare Advisory Board for the Memphis East market, the MRIs now in the market will be operating at an

- Other considerations: 1) MRI is supplanting Nuclear Medicine and x-ray as the imaging modality of choice for certain conditions; 2) Increasing population of aged individuals drives increased imaging; and 3) New screening options also drive volumes

► **VOLUME PROJECTIONS FOR REGIONAL ONE IMAGING – AT KIRBY**

Anticipated utilization at the ODC will be as follows:

<u>Outpatient Procedure</u>	<u>ODC Year 1</u>	<u>ODC Year 2</u>	<u>Hospital O/P 2012</u>	<u>Hospital O/P 2013</u>
MRI	2,363	2,611	2,544	2,513
CT	1,545	2,237	10,830	11,893
All Other	8,671	10,247	38,525	35,915
Total Volume	12,579	15,095	51,899	50,321

Why An ODC With MRI at Kirby:

- **Responsive service to existing patients is the primary goal:** – To achieve this, Regional One is focused on:
- **Timely Access:** Adding and dedicating an MRI to Outpatients facilitates prompt scheduling
 - **Convenience in Location:** Approximately 80% of Regional One's PSA population who require outpatient diagnostic services reside within a 20-Minute Drive-Time from Kirby. In addition, Kirby is close for SSA-East. More stats re: rest of service area including SSA-East
 - **Ease of Access Once Arrived:** Getting downtown to the Regional Medical Center can be a frustrating experience. Once one arrives at the Medical Center, parking and walking time to get through the large downtown campus complex to get to Imaging can take another 15 minutes. Ample parking will be provided at the Kirby Building with convenient and quick access to the entryway of the building. Further, a covered porte cochere will be available for patient drop-off, further speeding access.

D. Describe the need to change location or replace an existing facility.

Response: N/A.

E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of \$1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

1. For fixed-site major medical equipment (not replacing existing equipment):

a. Describe the new equipment, including:

- 1. Total cost; (As defined by Agency Rule).**
- 2. Expected useful life;**
- 3. List of clinical applications to be provided; and**
- 4. Documentation of FDA approval.**

Response:

	Equipment	Purchase Price	Term (Mos)	Monthly Payment	Total Cost
MRI	Optima MR 450w	\$1,069,686.95	84	\$13,100.00	1,100,400
CT	Goldseal Brightspeed Elite 16	\$306,350.99	60	\$5,000.00	300,000
Mammo	Senographe Care	\$280,910.85	60	\$4,500.00	270,000
X-Ray	Goldseal Precision 500D	\$315,000.00	60	\$5,100.00	306,000
U/S	Logiq E9	\$144,000.00	36	\$3,600.00	129,600
	Package Pricing	\$2,115,948.79		\$18,200.00	2,106,000

The expected useful life of the above equipment is 7 to 10 years.

Attachment B.II.E.1 is documentation from the manufacturer and from the FDA regarding the certified MRI equipment.

b. Provide current and proposed schedules of operations.

Response: The anticipated hours of operation of the ODC are from 7 a.m. to 5 p.m., Mon – Fri. If demand exceeds this schedule, we will extend our hours of operation.

2. For mobile major medical equipment:

a. List all sites that will be served;

- b. Provide current and/or proposed schedule of operations;
- c. Provide the lease or contract cost.
- d. Provide the fair market value of the equipment; and
- e. List the owner for the equipment.

Response: N/A.

3. Indicate applicant's legal interest in equipment (*i.e.*, purchase, lease, etc.) In the case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Response: The Applicant will lease the above-listed diagnostic equipment. *Attachment B.II.E.3* is a quote from the leasing vendor.

III. (A) Attach a copy of the plot plan of the site on an 8 1/2" x 11" sheet of white paper which must include:

1. Size of site (*in acres*)
2. Location of structure on the site; and
3. Location of the proposed construction.
4. Names of streets, roads or highway that cross or border the site.

Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.

Response:

1. The size of the medical complex approximates 6.002 Acres. Please see attached plot plan (*Attachment B.III.A*).
2. Please see *Attachment B.III.A*. This attachment indicates the location of the existing building on the site.
3. There is no proposed construction, as normally intimated by this question, as the space already exists. There will be a build out for the ODC, as previously explained.
4. *Attachment B.III.A* shows that the site is bounded by Quince Road and Nonconnah Parkway. Quince Road intersects with Kirby Road (a major north/south thoroughfare), which intersects with Nonconnah Parkway (a major east/west thoroughfare), which intersects with I-240. The site is readily accessible to patients, family members, and other health care providers.

(B) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Response: *Attachment B.III.A* shows that the site is bounded by Quince Road and Nonconnah Parkway. Quince Road intersects with Kirby Road (a major north/south thoroughfare), which intersects with Nonconnah Parkway (a major east/west thoroughfare), which intersects with I-240. The site is readily accessible to patients, family members, and other health care providers.

IV. Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on an 8 1/2" x 11" sheet of white paper.

NOTE: DO NOT SUBMIT BLUEPRINTS. Simple line drawings should be submitted and need not be drawn to scale.

Response: Please see *Attachment B.IV* for a footprint of the ODC, which will be located on the ground floor of the existing MOB. In addition to administrative (office, reception, registration, waiting room), staff, and equipment areas, there will be separate rooms for MRI, CT, Fluoroscopy, Mammography, and Ultrasound.

V. For a Home Health Agency or Hospice, identify:

1. Existing service area by County;
2. Proposed service area by County;
3. A parent or primary service provider;
4. Existing branches; and
5. Proposed branches.

Response: N/A.

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate "Not Applicable (N/A)."

QUESTIONS

NEED

1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee's Health: Guidelines for Growth.
 - a. Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

Response: Please see *Attachment ODC* and *Attachment MRI*.

Further, the State Health Plan lists the following Five Principles for Achieving Better Health, and are based on the Division's enacting legislation:

1. The purpose of the State Health Plan is to improve the health of Tennesseans;

Regional One Health has been serving patients since 1936, and continues to this day. Many changes have been made at the hospital, and more are planned, including this project by its wholly-owned subsidiary, Regional One Health Imaging, LLC. Regional One Health's goals are consistent with the State Health Plan, and this project will improve the health of Tennesseans.

2. Every citizen should have reasonable access to health care;

Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant.

- 3. The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system;**

The development of services at Regional One Health has always been the result of attempts to meet the needs of Tennesseans. In today's competitive market, patients are drawn to more modern and convenient facilities. This project will result in improvement of services and enhance the convenience of the patients we serve. Therefore, the approval of this application will enhance the "development" of health care services in the proposed service area.

- 4. Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers; and**

Tennessee is fortunate to have an excellent licensing division of the Department of Health. The Board of Licensing Health Care Facilities provides standards for and monitoring of licensed health care providers. This Applicant's Owner is fully licensed by the Department of Health and is certified by Medicare, Medicaid (TennCare), the Joint Commission on Accreditation of Healthcare Organizations (JCAHO, most recent survey 06/08/2011), and the Commission on Accreditation of Rehabilitation Facilities (CARF, most recent survey 11/01/2009). The Applicant will pursue similar certifications and appropriate accreditation from the American College of Radiology (ACR).

- 5. The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.**

The Applicant is committed to providing safe working conditions for its staff and continuing education to its staff. Regional One Health serves as a clinical rotation site for the UT Schools of Medicine and Nursing and other Allied Health Professional Schools. Regional One Health is a member of THA, AHA, TNPath, and NAPH. The Applicant, as a wholly-owned subsidiary of Regional One Health, will participate in such staff training to the greatest extent possible.

- b. Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c).**

Response: N/A.

2. Describe the relationship of this project to the applicant facility's long-range development plans, if any.

Response: From a historical point of view, the Hospital has not enjoyed financial success in the past as other hospitals in Memphis improved their respective campuses and added services. Following a brief period of time when a management company was brought in, a new senior administration was hired recently (2010) to oversee the improvement of both the physical plant and to enhance patient services provided by the Hospital. Both the management company and new senior management have been able to cut expenses, streamline processes, rework contracts, enhance the quality of services, and improve the financial viability of Regional One Health. This CON project is the next phase of planned improvements by the Hospital, through the Applicant, to further improve both the quality of services being provided to our patients, and enhance the convenience of patients we serve. At present, there is no formally-adopted long range plan, but several areas of the campus continue to be studied by senior leadership, key department heads, and the Board of Directors.

3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).

Response: The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of the Applicant's service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant's service area will surely mimic that of the hospital.

Based on an internal zip code patient analysis at Regional One Health, approximately 80% of the Hospital's patients requiring outpatient diagnostic services reside within a 20 minute drive of the ODC location. Further, the location of this new ODC will be much closer and more accessible for those patients who reside in the southern and southeastern portion of our service area.

Please see *Attachment C.Need.3* for a map of the service area.

4. A. Describe the demographics of the ⁵³ population to be served by this proposal.

Response: Our proposed service area is Shelby County. The projected population for the next 4 years, according to the TN Department of Health, is as follows:

2015	946,559
2016	949,178
2017	951,669
2018	954,012

In addition, U.S. Census Bureau data for the U.S., State and Shelby County is supplied as *Attachment C.Need.4.A*. This attachment shows that whereas 13.4% of the 2010 Tennessee population was over 65, only 10.4% of Shelby County population was aged. Per capita annual income in Shelby County was \$25,002 from 2006 - 2010, whereas Tennessee had an average per capita income of \$23,722 for the same reporting period. Median household income for 2006 – 2010 for Shelby County totaled \$44,705, and comparable income for the State was \$43,314. Finally, 16.5% of Tennesseans live below the poverty level, whereas 19.7% of Shelby County residents live below the poverty level.

See chart below:

Selected Demographic Estimates for Shelby County/Tennessee
(Source: U.S. Census Quickfacts)

Demographics	Shelby Co.	Tennessee	U.S.
65+	10.4%	13.4%	13.0%
Per Capita \$	\$25,002	\$23,722	\$27,334
Household \$	\$44,705	\$43,314	\$51,914
Below Pov. Lvl	19.7%	16.5%	13.8%
Pop/Sq. Mile	1,216	153.9	87.4
Home Owners	61.7%	69.6%	66.6%
White	43.6%	77.6%	72.4%
Black	52.3%	16.7%	12.6%

B. Describe the special needs of the service⁵⁴-area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response: According to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B*.

Further, the previous chart shows that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary, including minorities and low income patients.

5. Describe the existing or certified services⁵⁵, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

Response: Historic MRI and CT utilization is shown in *Attachments B.II.A.1 and B.II.A.2.*

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Response: The Hospital currently operates an MRI on its campus on Jefferson Street. As reported, the Hospital also has the third most active Trauma Center in the United States. As a trauma center, it is understandable that hospital resources, especially diagnostic services, are utilized to the maximum. The current Fiscal Year MRI utilization has increased as follows:

2011 4,412 procedures;
2012 4,491 procedures; and
2013 4,766 procedures.

Another MRI is needed to offset this high utilization. The issue is where to locate that second MRI.

Anticipated 4 year MRI utilization is 2,363; 2,611; 2,885; and 3,188 (Yrs 1 – 4).

Following is a summary of the process followed in arriving at the need for another MRI, and the fact that it is most advantageous to place that additional unit in an outpatient setting:

ODC AT KIRBY BUILDING – SUMMARY

Overall Program Description:

- ▶ Regional One Health System, through Regional One Health Imaging, LLC, is proposing to develop an Outpatient Diagnostic Center (ODC) at an existing MOB at the Kirby Building at 6555 Quince Boulevard, to serve current patients and residents of Hospital's Primary and Secondary-East Service Areas. In addition, the ODC will serve the "medical neighborhood" that Regional One Health System is creating at the Kirby Building. This medical neighborhood is envisioned as an intensive ambulatory, patient-centered practice model with a primary care core and selected key specialties, supported by the diagnostic services of this proposed ODC, therapies including PT and OT, satellite pharmacy, and selected specialty practices of UTMG physicians. This is intended to serve as a hub for Regional One's population health management strategy.

Types of Diagnostic Imaging Tests to be offered by the ODC include:

- ▶ Magnetic Resonance Imaging (MRI)
- ▶ Computed Tomography (CT)
- ▶ Bone Densitometry
- ▶ Ultrasound
- ▶ Digital Mammography
- ▶ Fluoroscopy
- ▶ X-ray

- Regional One is already exceeding HSDA guidelines for maximum operating capacity on its one MRI Unit. The one MRI unit located at the Hospital is used for Inpatient, Emergency Department, Trauma Center, and Outpatient Care. As shown in the table below, for the past 4 fiscal years, Regional One not only has exceeded HSDA criteria for "Operational Efficiency" of one MRI unit, but also has exceeded what HSDA has defined as capacity of one machine. In FY2013 alone, the Regional Medical Center's volumes exceeded optimal operational efficiency by almost 1,900 procedures.

	MRI Procedures			
	FY10	FY11	FY12	FY13
Number of Procedures at ROHS (one machine)	3,882	4,412	4,491	4,766
% Change over Prior Year		14%	2%	6%
HSDA Criteria for "Operational Efficiency"	2,880	2,880	2,880	2,880
Number of Procedures Exceeding "Operational Efficiency"	1,002	1,532	1,611	1,886
HSDA Criteria for MRI Capacity	3,600	3,600	3,600	3,600
Number of Actual Procedures Exceeding HSDA Maximum Capacity Level	282	812	891	1,166
"No Shows" Estimated at 15% *	582	662	674	715
Assume 50% of "No Shows" Would Have Used ROHS If Scheduling had not been a barrier	291	331	337	357
Assume 5% of Patients Referred For MRI Never Made An Appointment Due to Long Wait List	388	441	449	477
TOTAL of "Excess," "No Shows" and "Never Scheduled"	961	1,584	1,677	2,000

- ▶ *Outpatients are differentially affected by these exceedingly high volumes, experiencing waits of two weeks or more in scheduling an MRI.* With a priority use of the existing Hospital MRI unit for inpatients and emergency department patients, the waiting time to schedule an Outpatient MRI is at least two weeks. As the State's trauma center for West Tennessee, Regional One's MRI is utilized to maximum capacity and, when necessary a trauma patient can bump a long-scheduled, elective Outpatient MRI. Regional One's Inpatients are sicker than the general hospital population, further increasing the demands on one MRI unit.
- ▶ *MRI scheduling wait time is a barrier to access for Outpatients and a challenge to maintain continuity of care.* A recent analysis conducted by Regional One's Radiology Department indicates that excessive scheduling wait times have contributed to a high "no show" rate. In 2012 and, again in 2013, 15% of MRIs scheduled were "no shows." Those Regional One patients who are seeking care elsewhere experience a break in continuity of care. On the other hand, if those patients do not seek care elsewhere, they are not receiving the care they need. Either way, the analysis reveals that a second MRI is needed.
- ▶ *TennCare patients have been particularly hampered in scheduling at the Regional Medical Center.* The Hospital estimates that, in 2013, more than 300 TennCare patients were "no-shows" for MRI procedures. Further, based on the long waits in scheduling an MRI at the Hospital, the suppressed demand from our TennCare patients referred by our Regional One physicians may be more than double that number when those referred by our physicians for care are deterred from scheduling their MRIs at the Hospital because of long waits.
- ▶ We do not know whether these Regional One TennCare patients ("No-Shows" and "Referred but not scheduled") have gone elsewhere or whether they did not receive the care that was prescribed by their physician. Either way, this suppressed demand is both a break in the continuity of care rendered by Regional One and an access issue.
- ▶ We would expect that with the convenience in scheduling, ease of travel to this location, parking at the door, and other amenities provided at the Kirby Building, Regional One Health Imaging, LLC should be able to recover this suppressed demand in the TennCare and other populations we serve, thereby improving the medical management of our patients' health care.
- ▶ *Self-Pay patients have limited choice in Shelby County and have been differentially exposed to scheduling waits.* In addition to "no shows," we also have observed that many patients when faced with too long waits for appointments, never follow-up on their care at all. Patients with resources have choices. Regional One Health, as the County Healthcare Facility, is the only choice available to elective self-pay patients.
- ▶ *There is a need to provide for market growth and the projected increased use of the modality.*
 - Market growth for Outpatient MRI between 2012 and 2022 is projected by the Health Care Advisory Board to be 24% -- a compound growth rate of more than 2% per year
 - Current MRI units (41) reported to HSDA 108,456 total procedures in 2012. This results in an average utilization per machine of 2,645 in 2012, just under HSDA's optimal operational efficiency standard of 2,880 procedures per unit. Applying the compound annual growth rate of approximately 2.2% per year projected by the HealthCare Advisory Board for the Memphis East market, the MRIs now in the market will be operating at an

average of 2,823 procedures by ~~50~~ year 2015 when Regional One Health Imaging opens its facility.

8:21 am

- Other considerations: 1) MRI is supplanting Nuclear Medicine and x-ray as the imaging modality of choice for certain conditions; 2) Increasing population of aged individuals drives increased imaging; and 3) New screening options also drive volumes

► **VOLUME PROJECTIONS FOR REGIONAL ONE IMAGING – AT KIRBY**

Anticipated utilization at the ODC will be as follows:

<u>Outpatient Procedure</u>	<u>ODC Year 1</u>	<u>ODC Year 2</u>	<u>Hospital O/P 2012</u>	<u>Hospital O/P 2013</u>
MRI	2,363	2,611	2,544	2,513
CT	1,545	2,237	10,830	11,893
All Other	8,671	10,247	38,525	35,915
Total Volume	12,579	15,095	51,899	50,321

Why An ODC With MRI at Kirby:

- **Responsive service to existing patients is the primary goal:** – To achieve this, Regional One is focused on:
- **Timely Access:** Adding and dedicating an MRI to Outpatients facilitates prompt scheduling
 - **Convenience in Location:** Approximately 80% of Regional One's PSA population who require outpatient diagnostic services reside within a 20-Minute Drive-Time from Kirby. In addition, Kirby is close for SSA-East. More stats re: rest of service area including SSA-East
 - **Ease of Access Once Arrived:** Getting downtown to the Regional Medical Center can be a frustrating experience. Once one arrives at the Medical Center, parking and walking time to get through the large downtown campus complex to get to Imaging can take another 15 minutes. Ample parking will be provided at the Kirby Building with convenient and quick access to the entryway of the building. Further, a covered porte cochere will be available for patient drop-off, further speeding access.

June 30, 2014**9:30 am**

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.
- All projects should have a project cost of at least \$3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)
- The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater.
- The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.
- For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.

Response: The Project Costs Chart is completed. Approximately 4,587 GSF will be renovated, and adding the common area factor, a total of 5,275 GSF will be leased. The Applicant's renovation costs of \$249,000, divided by the GSF of the ODC (4,587) equals approximately \$54.29 per GSF.

This project is financially feasible, based on cost information gathered by the HSDA for recent renovation projects, as seen in the next chart:

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	\$1,235,500	\$159.69
CN1103-008	795	\$127,500	\$160.38
CN1304-014	847	\$150,000	\$177.10
CN1304-013	2,080	\$520,000	\$250.00
CN1203-014	5,320	\$1,605,150	\$301.72

Please see *Attachment C.EF.1*, which is a letter from the Project Manager for this project.

PROJECT COSTS CHART

A. Construction and equipment acquired by purchase.

1. Architectural and Engineering Fees	\$
2. Legal, Administrative (Excluding CON Filing Fee), Consultant	50,000
3. Acquisition of Site	
4. Preparation of Site	
5. Construction Costs (build out of existing space)	249,000
6. Contingency Fund	
7. Fixed Equipment (Not included in Construction Contract)	518,350
8. Moveable Equipment (List all equipment over \$50,000)*	
9. Other (Specify)	
<hr/>	
Subsection A Total	\$ 817,350

B. Acquisition by gift, donation, or lease.

1. Facility (Inclusive of Building and Land) (FMV)	\$ 1,392,600
2. Building Only	
3. Land Only	
4. Equipment (Specify)	
<i>MRI, CT, Mammo, X-Ray/Fluoro, Ultrasound</i>	2,115,949
5. Other (Specify)	
<i>Equipment Maintenance</i>	1,008,000
Subsection B Total	\$ 4,516,549

C. Financing costs and fees

1. Interim Financing	
2. Underwriting Costs	
3. Reserve for One Year's Debt Service	
4. Other (Specify)	
Subsection C Total	0

D. Estimated Project Cost (A + B + C) \$ 5,333,899.00

E. CON Filing Fee \$ 12,001.28

F. Total Estimated Project Cost (D + E) TOTAL \$ 5,345,900.28

2. Identify the funding sources for this project.⁶²

- a. Please check the applicable item(s) below and briefly summarize how the project will be financed. (*Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.*)

- ☐ A. Commercial loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;
- ☐ B. Tax-exempt bonds--Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;
- ☐ C. General obligation bonds—Copy of resolution from issuing authority or minutes from the appropriate meeting.
- ☐ D. Grants--Notification of intent form for grant application or notice of grant award; or
- ☒ E. Cash Reserves--Appropriate documentation from Chief Financial Officer.
- ☐ F. Other—Identify and document funding from all other sources.

Response: This project will be financed by cash reserves. The financials of the Applicant indicate that funds are available. In addition, J. Richard Wagers, Jr., Regional One Health's Sr. Executive Vice President and CFO, has furnished a letter attesting that Regional One Health has sufficient assets to implement this project (see *Attachment C.EF.2*).

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.

Response: Approximately 4,587 GSF will be renovated, and adding the common area factor, a total of 5,275 GSF will be leased. The Applicant's renovation costs of \$249,000, divided by the GSF of the ODC (4,587) equals approximately \$54.29 per GSF.

This project is financially feasible, based on cost information gathered by the HSDA for hospital projects between 2009 and 2011, as seen in the next chart:

Hospital Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1st Quartile	\$125.84/sq ft	\$235.86/sq ft	\$167.99/sq ft
Median	\$177.60/sq ft	\$274.63/sq ft	\$249.32/sq ft
3rd Quartile	\$273.69/sq ft	\$324.00/sq ft	\$301.74/sq ft

Source: CON approved applications for years 2009 through 2011

Please see *Attachment C.EF.1*, which is a letter from the Project Manager for this project.

4. Complete Historical and Projected Data Charts on the following two pages--Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last three (3) years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the Proposal Only (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).

Response: As a new Applicant, there is no historical data. The Projected Data Chart is complete.

Please note that the project will have a positive cash flow in both Years 1 and 2. However, equipment maintenance costs are not charged on the first year of the lease. However, such costs do begin in Year 2. Therefore, costs increase in Year 2, thereby affecting our bottom line. Even so, we anticipate continuing positive cash flow in succeeding years.

HISTORICAL ⁶⁵DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency.
The fiscal year begins in _____ (month).

Response:

A.	Utilization/Occupancy Rate (Patient Days)			
B.	Revenue from Services to Patients			
	1. Inpatient Services	_____	_____	_____
	2. Outpatient Services	_____	_____	_____
	3. Emergency Services	_____	_____	_____
	4. Other Operating Revenue (Specify) _____	_____	_____	_____
	Gross Operating Revenue	_____	_____	_____
C.	Deductions from Operating Revenue			
	1. Contractual Adjustments	_____	_____	_____
	2. Provision for Charity Care	_____	_____	_____
	3. Provision for Bad Debt	_____	_____	_____
	Total Deductions	_____	_____	_____
	NET OPERATING REVENUE	_____	_____	_____
D.	Operating Expenses			
	1. Salaries and Wages	_____	_____	_____
	2. Physician's Salaries and Wages	_____	_____	_____
	3. Supplies	_____	_____	_____
	4. Taxes	_____	_____	_____
	5. Depreciation	_____	_____	_____
	6. Rent	_____	_____	_____
	7. Interest, other than Capital	_____	_____	_____
	8. Management Fees:			
	a. Fees to Affiliates	_____	_____	_____
	b. Fees to Non-Affiliates	_____	_____	_____
	9. Other Expenses (Specify) <u>ATTACHED</u>	_____	_____	_____
	Total Operating Expenses	_____	_____	_____
E.	Other Revenue (Expenses)-Net (Specify) <u>Attached</u>	_____	_____	_____
	NET OPERATING INCOME (LOSS)	_____	_____	_____
F.	Capital Expenditures			
	1. Retirement of Principal	_____	_____	_____
	2. Interest	_____	_____	_____
	Total Capital Expenditure	_____	_____	_____
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	_____	_____	_____

PROJECTED DATA CHART

SUPPLEMENTAL #2

June 30, 2014

9:30 am

Give information for the two (2) years following the completion of this project. The fiscal year begins in July (month).

	Yr-1	Yr-2
A. Utilization/Occupancy (Diagnostic Procedures)	<u>12,579</u>	<u>15,095</u>
B. Revenue from Services to Patients		
1. Inpatient Services		
2. Outpatient Services	<u>7,758,909</u>	<u>9,310,691</u>
3. Emergency Services		
4. Other Operating Revenue (Specify)		
Gross Operating Revenue	<u>7,758,909</u>	<u>9,310,691</u>
C. Deductions from Operating Revenue		
1. Contractual Adjustments	<u>4,911,583</u>	<u>5,893,900</u>
2. Provision for Charity Care	<u>131,707</u>	<u>158,049</u>
3. Provision for Bad Debt	<u>81,469</u>	<u>97,762</u>
Total Deductions	<u>5,124,759</u>	<u>6,149,711</u>
NET OPERATING REVENUE	<u>2,634,150</u>	<u>3,160,979</u>
D. Operating Expenses		
1. Salaries and Wages	<u>571,200</u>	<u>647,170</u>
2. Physician's Salaries and Wages (Contracted)	<u>474,147</u>	<u>568,976</u>
3. Supplies	<u>107,438</u>	<u>132,794</u>
4. Taxes	<u>60,000</u>	<u>60,000</u>
5. Depreciation	<u>100,703</u>	<u>100,703</u>
6. Rent	<u>144,000</u>	<u>144,000</u>
7. Interest, other than Capital	<u>104</u>	<u>104</u>
8. Management Fees:		
a. Fees to Affiliates		
b. Fees to Non-Affiliates	<u>111,366</u>	<u>126,439</u>
9. Other Expenses (Specify) <u>Attached</u>	<u>851,889</u>	<u>1335,720</u>
Total Operating Expenses	<u>2,420,848</u>	<u>3,115,906</u>
E. Other Revenue (Expenses)-Net (Specify) <u>Attached</u>		
NET OPERATING INCOME (LOSS)	<u>213,302</u>	<u>45,074</u>
F. Capital Expenditures		
1. Retirement of Principal		
2. Interest (on Letter of Credit)		
Total Capital Expenditure		
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	<u>213,302</u>	<u>45,074</u>

Give information for the two (2) years following the ⁶⁷completion of this project. The fiscal year begins in July (month).

**OTHER EXPENSES
PROJECTED DATA CHART**

<u>Item D 9 -- Other Expenses</u>	<u>Year 1</u>	<u>Year 2</u>
Purchased Admin Services	144,205	120,189
General and Admin	290,301	296,107
Utilities	97,386	96,639
Misc Equipment Leases	180,509	361,018
Equipment Service and Repair	4,500	266,035
Billing and Collections	134,988	195,732
Total	\$851,889	\$1,335,720

5. Please identify the project's average gross⁶⁸ charge, average deduction from operating revenue, and average net charge.

Response: There are no historical charge rates for the Applicant. It is projected that average patient charges for Year 1 (considering ALL procedures) will be:

Average Gross Charge/Patient:	\$555
Average Deduction/Patient	\$366
Average Net Charge/Patient	\$188.

It is projected that average patient charges for Year 1 (MRI only) will be:

Average Gross Charge/Patient:	\$1,794
Average Deduction/Patient	\$1,185
Average Net Charge/Patient	\$609.

6. A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.

Response: There are no historical charge rates for the Applicant. It is projected that average patient charges for Year 1 (considering ALL procedures) will be:

Average Gross Charge/Patient:	\$555
Average Deduction/Patient	\$366
Average Net Charge/Patient	\$188.

It is projected that average patient charges for Year 1 (MRI only) will be:

Average Gross Charge/Patient:	\$1,794
Average Deduction/Patient	\$1,185
Average Net Charge/Patient	\$609.

B. Compare the proposed charges to ⁷⁰those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

Response: According to the HSDA, the median charge for an MRI procedure in 2012 was \$2,106.03. The Applicant anticipates the following for Year 1:

It is projected that average patient charges for Year 1 (MRI only) will be:

Average Gross Charge/Patient:	\$1,794
Average Deduction/Patient	\$1,185
Average Net Charge/Patient	\$609.

7. Discuss how projected utilization rates will⁷¹ be sufficient to maintain cost-effectiveness.

Response: The Projected Data Chart indicates sufficient revenue to maintain cost-effectiveness. Obviously, income is dependent upon rendering services to a sufficient number of patients. However, the number of anticipated procedures clearly shows that sufficient utilization of the ODC will result in positive cash flow.

8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

Response: The Projected Data Chart indicates sufficient revenue to maintain cost-effectiveness. Obviously, income is dependent upon rendering services to a sufficient number of patients. However, the number of anticipated procedures clearly shows that sufficient utilization of the ODC will result in positive cash flow.

The Hospital itself (the Applicant's Owner) has reported profitable years since 2010, the year the new management team was hired. In fact, Regional One Health has increased its revenue to the extent it has sufficient cash reserves to fund this project. Financial viability has been ensured by improvements made at the hospital, including cutting expenses, streamlining processes, reworking contracts, enhancing the quality of services, and improving the financial viability of Regional One Health. This CON project is the next phase of planned improvements to further improve both the quality of services being provided to our patients and enhance patient convenience.

9. Discuss the project's participation in⁷³ state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and Medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.

Response: The Hospital participates in Medicare and TennCare, as will the Applicant. The following payor sources are anticipated at our ODC, by payor mix:

Medicaid	25%
Medicare	25%
Contracted Commercial	30%
Other Commercial	10%
Self Pay	10%.

10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility-10.

Response: See *Attachment C.EF.10*.

11. Describe all alternatives to this project ⁷⁴which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:
- a. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

Response: The only alternative – other than doing nothing – that was considered was placing more diagnostic equipment at the hospital's campus. This alternative was discarded due to space limitations and patient inconvenience. This new site for a new ODC was chosen for the various reasons already described in detail in this application.

- b. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

Response: The only alternative – other than doing nothing – that was considered was placing more diagnostic equipment at the hospital's campus. This alternative was discarded due to space limitations and patient inconvenience. This new site for a new ODC was chosen for the various reasons already described in detail in this application.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.

Response: The Hospital has TennCare contracts with UHC/Americhoice, Blue Care and TNCare Select. These contracts will not change as a result of this project. The Applicant will pursue contracts with the same MCOs, and with any new MCOs that provide services in the area.

Regional One Health and its predecessors have provided acute medical services for citizens of Shelby County and the surrounding area for generations, beginning in 1936. Today, it is a regional referral facility for a wide catchment area. While Shelby County residents remain its main reason for existence, the hospital provides a wide assortment of tertiary health care services for people from surrounding areas. As stated earlier, its 2011 JAR shows that its patients originated from 31 Tennessee counties plus 10 additional states. As such, Regional One Health has a plethora of contractual and working relationships.

See *Attachment C.OD.1* for a letter of support from an existing provider. Other letters may be provided later.

2. Describe the positive and/or negative effects⁷⁶ of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

Response: The approval of this project will only result in positive outcomes. Regional One Health System, through Regional One Health Imaging, LLC, is proposing to develop an Outpatient Diagnostic Center (ODC) at an existing MOB at the Kirby Building at 6555 Quince Boulevard, to serve current patients and residents of Hospital's Primary and Secondary-East Service Areas. In addition, the ODC will serve the "medical neighborhood" that Regional One Health System is creating at the Kirby Building. This medical neighborhood is envisioned as an intensive ambulatory, patient-centered practice model with a primary care core and selected key specialties, supported by the diagnostic services of this proposed ODC, therapies including PT and OT, satellite pharmacy, and selected specialty practices of UTMG physicians. This is intended to serve as a hub for Regional One's population health management strategy.

As our patients who require diagnostic procedures are referred from within our health system, there should be no negative impact on existing rehab providers.

3. Provide the current and/or anticipated ⁷⁷staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.

Response: We anticipate hiring only 4 equipment technicians (“...employees providing patient care for the project.”). The salary for each technician will be approximately \$60,000 per year. This staff is readily available either at work at the Hospital, or through our extensive personnel files. We anticipate no problem in filling these few positions.

Comparable clinical staff in the service area as published by the Tennessee Department of Labor & Workforce Development is included in *Attachment C.OD.3*.

4. Discuss the availability of and accessibility⁷⁸ to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.

Response: We anticipate hiring only 4 equipment technicians ("...employees providing patient care for the project."). The salary for each technician will be approximately \$60,000 per year. This staff is readily available either at work at the Hospital, or through our extensive personnel files. We anticipate no problem in filling these few positions.

Comparable clinical staff in the service area as published by the Tennessee Department of Labor & Workforce Development is included in *Attachment C.OD.3*.

5. Verify that the applicant has reviewed ⁷⁹ and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs, record keeping, and staff education.*

Response: The Applicant (through its Owner) is familiar with all licensing certification requirements for medical/clinical staff.

6. Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (*e.g., internships, residencies, etc.*).

Response: The Applicant's Owner has clinical affiliation relationships with UT School of Medicine and the University of Memphis School of Nursing. These relationships will only enhance services being provided by our ODC. See *Attachment C.OD.6.*

7. (a) Please verify, as applicable, that the ⁸⁰applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.

Response: The Applicant, through its Owner, is familiar with all licensure requirements of the regulatory agencies of the State.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

Response:

Licensure: Tennessee Department of Health
Accreditation: Medicare, Medicaid/TennCare, ACR

(c) If an existing institution, please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.

Response: Not Applicable.

(d) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

Response: Not Applicable.

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Response: There have been no final orders or judgments as are contemplated by this question.

9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project

Response: There have been no final orders or judgments as are contemplated by this question.

10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

Response: The Applicant will provide all data contemplated by this question.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

Response: If the requested documentation is not attached, it will be submitted once received.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.
2. If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph*, please state below any request for an extended schedule and document the "good cause" for such an extension.

Form HF0004
Revised 05/03/04
Previous Forms are obsolete

SUPPLEMENTAL #1

PROJECT COMPLETION FORECAST CHART 25, 2014
8:21 am

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): 09/2014.

Assuming the CON approval becomes the final agency action on that date; indicate the number of day from the above agency decision date to each phase of the completion forecast.

<u>Phase</u>	DAYS REQUIRED	Anticipated Date (MONTH/YEAR)
1. Architectural and engineering contract signed	15	09/25/14
2. Construction documents approved, TDOH	60	11/27/14
3. Construction contract signed	14	12/18/14
4. Building permit secured	1	12/19/14
5. Site preparation completed	N/A	
6. Building construction commenced	21	09/09/15
7. Construction 40% complete	90	04/09/15
8. Construction 80% complete	90	07/09/15
9. Construction 100% complete (app., occupancy)	60	09/09/15
10. *Issuance of license	90	12/09/15
11. *Initiation of service	90	03/09/16
12. Final Architectural Certification of Payment	60	05/11/16
13. Final Project Report Form (HF0055)	90	08/19/16

*** For projects that do NOT involve construction or renovation : Please complete items 10 and 11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

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AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSON

E. Graham Baker, Jr., being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete to the best of my knowledge, information, and belief.

E. Graham Baker, Jr., ATTORNEY AT LAW
SIGNATURE/TITLE

Sworn to and subscribed before me this 13th day of June, 2014, a
(month) (year)

Notary Public in and for the County/State of Davidson/Tennessee.

Nadeau
NOTARY PUBLIC



My commission expires July 3rd, 2017.
(Month/Day) (Year)

Utilization of MRI's in the Service Area

	2010	2011	2012	# Units 2012	% Change	Miles
BMH Collierville	1,941	1,891	1,734	1	-10.66%	10.5
BMH Memphis	11,517	12,052	11,913	3	3.44%	6.0
Baptist Rehab - Germantown	1,702	1,622	1,596	1	-6.23%	4.1
Baptist Rehab - Briarcrest	370	585	650	1	75.68%	2.8
Campbell Clinic - Union	64	2,290	2,155	1	3267.19%	15.7
Campbell Clinic	8,081	6,502	6,321	1	-21.78%	4.9
Delta Medical Cntr	880	1,006	787	1	-10.57%	6.9
Diagnostic Imaging	4,540	6,358	6,538	1	44.01%	2.5
LeBonheur	3,856	4,663	5,357	3	38.93%	16.6
Methodist Germantown	8,313	7,698	6,557	2	-21.12%	3.7
Methodist North	3,536	4,073	4,139	1	17.05%	14.9
Methodist South	6,359	6,058	6,092	2	-4.20%	13.7
Methodist University	9,136	9,677	9,803	3	7.30%	15.8
MSK Covington Pike	3,420	3,096	3,140	1	-8.19%	29.0
MSK Briarcrest	4,043	4,508	4,489	1	11.03%	32.1
Neurology Clinic	3,370	3,168	3,160	1	-6.23%	29.2
Outpatient Diagnostic Memph	2,389	2,207	2,214	1	-7.33%	27.5
Park Ave. Diagnostic	3,857	3,080	2,681	2	-30.49%	24.0
Regional One	3,733	3,927	4,491	1	20.31%	16.9
Semmes Murphey Clinic	7,327	7,300	6,490	2	-11.42%	25.6
St. Francis	6,159	5,482	5,393	3	-12.44%	25.6
St. Francis - Bartlett	3,030	3,257	3,642	2	20.20%	31.8
St. Jude	9,467	10,031	6,241	4	-34.08%	18.5
Wesley Neurology Clinic	1,393	1,398	1,309	1	-6.03%	29.2
West Clinic, P.C.	1,304	1,662	1,564	1	19.94%	25.4
Total	109,787	113,591	108,456	41	-1.21%	

CON Approved MRI Units Since 2012

	2012	CON Approved	Miles
LeBonheur Children's Hospital	3	1	16.8
BMH for Women	0	1	4.8
West TN Imaging *	1	0	2.9

* "Moving" existing unit

Utilization of CT's in the Service Area

	2010	2011	2012	# Units 2012	% Change
BMH Collierville	12,381	11,277	8,843	1	-28.58%
BMH Memphis	50,351	51,644	48,898	6	-2.89%
BMH for Women	572	622	479	1	-16.26%
BMH - Bartlett	3,081	2,151			N/A
BMH - Germantown	1,669	641			N/A
Baptist Rehab - Germantown	695	749	565	1	-18.71%
Bowden, Phillip M.D.	2,093	611	659	1	-68.51%
Conrad Pearson	7,466	4,113	3,678	1	-50.74%
Delta Medical Cntr	4,694	4,389	3,921	1	-16.47%
Diagnostic Imaging	3,217	3,592	3,542	1	10.10%
East Memphis PET	96				N/A
Gastro One	3,198	1,563	1,571	1	-50.88%
ImagDent of Memphis	268	533	457	1	70.52%
LeBonheur	7,124	6,993	6,866	2	-3.62%
Methodist Germantown	29,484	24,728	26,486	3	-10.17%
Methodist North	30,002	23,985	24,625	3	-17.92%
Methodist South	22,045	17,181	16,958	2	-23.08%
Methodist University	37,673	34,418	35,418	5	-5.99%
Neurology Clinic	383	290	342	1	-10.70%
Park Ave. Diagnostic	2,195	1,374	1,188	1	-45.88%
Regional One	150,144	46,236	42,518	3	-71.68%
Semmes Murphey Clinic	2,046	1,845	1,845	1	-9.82%
St. Francis	21,131	15,987	1,682	4	-92.04%
St. Francis - Bartlett	15,830	13,922	15,712	2	-0.75%
St. Jude	6,023	4,679	2,863	1	-52.47%
West Clinic	2,752	1,314	3,294	1	19.69%
West Clinic, P.C.	16,122	18,464	14,516	2	-9.96%
Total	432,735	293,301	266,926	46	-38.32%

Source: HSDA, Medical Equipment, Computed Tomography Scanners - Utilization 2010-2013

Top 10 CPT Codes for Regional One Health for MR and CT including the charge rate difference with Landman Imaging Charges

CODE	DESCRIPTION	MODALITY	REGIONAL ONE HEALTH DEPARTMENT CHARGE	REGIONAL ONE HEALTH IMAGING CHARGE	DIFFERENCE \$ INCREASE / (DECREASE)	% INCREASE / (DECREASE)
74177	COMBO CT (ABD, PELVIS W/)	CT	\$ 4,893	\$ 1,051	\$ (3,842)	-79%
74176	COMBO CT (ABD, PELVIS W/O)	CT	\$ 3,727	\$ 267	\$ (3,460)	-93%
74160	CT ABDOMEN W/	CT	\$ 2,445	\$ 1,035	\$ (1,410)	-58%
74170	CT ABDOMEN W/O & W/	CT	\$ 2,643	\$ 1,366	\$ (1,277)	-48%
70450	CT HEAD W/O	CT	\$ 1,567	\$ 133	\$ (1,434)	-92%
70488	CT MAXILLOFACIAL W/O & W/	CT	\$ 2,504	\$ 1,190	\$ (1,314)	-52%
72193	CT PELVIS W/	CT	\$ 2,448	\$ 912	\$ (1,536)	-63%
72192	CT PELVIS W/O	CT	\$ 2,071	\$ 754	\$ (1,317)	-64%
72125	CT SPINE CERVICAL W/O	CT	\$ 2,099	\$ 781	\$ (1,318)	-63%
71260	CT THORAX W/	CT	\$ 2,438	\$ 964	\$ (1,474)	-60%
70547	MRA NECK W/O	MRI	\$ 2,937	\$ 1,170	\$ (1,767)	-60%
70553	MRI BRAIN W/O & W/	MRI	\$ 4,006	\$ 2,244	\$ (1,762)	-44%
73721LT	MRI JOINT LOWER,LT,W/O	MRI	\$ 3,042	\$ 1,536	\$ (1,506)	-50%
73721RT	MRI JOINT LOWER,RT,W/O	MRI	\$ 3,042	\$ 1,536	\$ (1,506)	-50%
73221RT	MRI JOINT UPPER,RT,W/O	MRI	\$ 2,964	\$ 1,536	\$ (1,428)	-48%
72197	MRI PELVIS W/O & W/	MRI	\$ 4,000	\$ 2,297	\$ (1,703)	-43%
72141	MRI SPINE CERVICAL W/O	MRI	\$ 2,944	\$ 1,445	\$ (1,499)	-51%
72148	MRI SPINE LUMBAR SPINE W/O	MRI	\$ 2,944	\$ 1,445	\$ (1,499)	-51%
72158	MRI SPINE LUMBAR SPINE W/O & W	MRI	\$ 4,000	\$ 2,208	\$ (1,792)	-45%
72146	MRI SPINE THORACIC W/O	MRI	\$ 2,941	\$ 1,465	\$ (1,476)	-50%

NOTES: 1.) These CPT Codes represent the 10 highest volume CPT codes used at Regional One Health for MR and CT Only
2.) The Charge Amounts and the Allowed Amounts are restricted to Medicare Financial Class only.



GE

Healthcare Financial Services

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SUPPLEMENTAL #1

Supplemental P.H.E.3

June 25, 2014

8:21 am

June 24, 2014

Dr. Jeff Landman
Regional One Health
6555 Quince Road
Memphis, TN 38119

Dear Dr. Landman:

GE Healthcare Financial Services, a component of General Electric Capital Corporation ("GEHFS"), is pleased to submit the following proposal:

Contract Description: True lease of equipment.

Lessor: General Electric Capital Corporation, or one or more of its affiliates and/or assigns.

Lessee: Regional One Health

Equipment Description: GE Healthcare Diagnostic Imaging Equipment

Equipment Cost: \$2,115,948.79

Term and Rental
Payment Amount:

Product	Price	Term	Monthly Payment
Optima MR 450w	\$1,069,686.95	84	\$13,100.00
Goldseal Brightspeed Elite 16	\$306,350.99	60	\$5,000.00
Senographe Care	\$280,910.85	60	\$4,500.00
Goldseal Precision 500D	\$315,000.00	60	\$5,100.00
Logiq E9	\$144,000.00	36	\$3,600.00

Lease Rate on
Equipment Cost:

Note: The lease rate and rental payment amounts have been calculated based on the Swap Rate (as defined below) and an assumption that, at the time of funding, the Swap Rate will be 1.80%. GEHFS reserves the right to adjust the lease rate and rental payment amounts if this is not the case, and/or if the lease commences after December 31, 2014, and/or for other changes in market conditions as determined by GEHFS in its sole discretion. As used herein, "Swap Rate" means the interest rate for swaps that most closely approximates the initial term of the lease as published by the Federal Reserve Board in the Federal Reserve Statistical Release H.15 entitled "Selected Interest Rates" currently available online at <http://www.federalreserve.gov/releases/h15/update/> or such other nationally recognized reporting source or publication as GEHFS may specify.

End of Lease Options: Lessee shall, at its option, either purchase all (but not less than all) of the Equipment for its then fair market value, plus applicable taxes or return the Equipment to GEHFS.

Advance Rent: \$0.00 due with signed contract. In no event shall any advance rent or advance charge or any other rent payments be refunded to Lessee. The Advance Rental will be applied as described in the lease.

Documentation Fee: A documentation fee of \$Waived will be charged to Lessee to cover document preparation, document transmittal, credit write-ups, lien searches and lien filing fees. The documentation fee is due upon Lessee's acceptance of this proposal and is non-refundable. This fee is based on execution of our standard documents substantially in the form submitted by us. In the event significant revisions are made to our documents at your request or at the request of your legal counsel or your landlord or mortgagee or their counsel, the documentation fee will be adjusted accordingly to cover our additional costs and expenses.

Interim Rent: If the lease commencement date is not the 1st or 15th of any calendar month (a "Payment Date"), interim rent may be assessed for the period between the lease commencement date and the Payment Date.

Required Credit Information:

- Two years fiscal year end audited/un-audited financial statements and comparative interim statements; or tax returns and business plan.
- Such additional information as may be required.

Proposal Expiration:

This proposal and all of its terms shall expire on December 31, 2014 if Lessee has not received Lessee's signed acceptance hereof by such date. Subject to the preceding sentence, this proposal and all of its terms shall expire on December 31, 2014 if the lease has not commenced by such date.

June 25, 2014

8:21 am

The summary of proposed terms and conditions set forth in this proposal is not intended to be all-inclusive. Any terms and conditions that are not specifically addressed herein would be subject to future negotiations. Moreover, by signing the proposal, the parties acknowledge that: (i) this proposal is not a binding commitment on the part of any person to provide or arrange for financing on the terms and conditions set forth herein or otherwise; (ii) any such commitment on the part of GEHFS would be in a separate written instrument signed by GEHFS following satisfactory completion of GEHFS' due diligence, internal review and approval process (which approvals have not yet been sought or obtained); (iii) this proposal supersedes any and all discussions and understandings, written or oral between or among GEHFS and any other person as to the subject matter hereof; and (iv) GEHFS may, at any level of its approval process, decline any further consideration of the proposed financing and terminate its credit review process. Lessee hereby acknowledges and agrees that GEHFS reserves the right to syndicate (via a referral, an assignment or a participation) all or a portion of the proposed transaction to one or more banks, leasing or finance companies or financial institutions (a "Financing Party"). In the event GEHFS elects to so syndicate all or a portion of the proposed transaction (whether before or after any credit approval of the proposed transaction by GEHFS) and is unable to effect such syndication on terms satisfactory to Lessee and/or GEHFS, GEHFS may, in its discretion, decline to enter into, and/or decline any further consideration of, the proposed financing. Lessee hereby further acknowledges and agrees that, in connection with any such syndication, GEHFS may make available to one or more Financing Parties any and all information provided by or on behalf of Lessee to GEHFS (including, without limitation, any third party credit report(s) provided to or obtained by GEHFS).

Except as required by law, neither this proposal nor its contents will be disclosed publicly or privately except to those individuals who are your officers, employees or advisors who have a need to know as a result of being involved in the proposed transaction and then only on the condition that such matters may not be further disclosed. Nothing herein is to be construed as constituting tax, accounting or legal advice by GEHFS to any person.

You hereby authorize GEHFS to file in any jurisdiction as GEHFS deems necessary any initial Uniform Commercial Code financing statements that identify the Equipment or any other assets subject to the proposed financing described herein. If for any reason the proposed transaction is not approved, upon your satisfaction in full of all obligations to GEHFS, GEHFS will cause the termination of such financing statements. You acknowledge and agree that the execution of this proposal and the filing by GEHFS of such financing statements in no way obligates GEHFS to provide the financing described herein. By signing below, you hereby consent to and authorize GEHFS to perform all background, credit, judgment, lien and other checks and searches as GEHFS deems appropriate in its sole credit judgment.

We look forward to your early review and response. If there are any questions, we would appreciate the opportunity to discuss this proposal in more detail at your earliest convenience. Please do not hesitate to contact me directly at 615-854-3687.

Sincerely yours,

Don Diffendorf

Donald Diffendorf
Vice President
GE Healthcare Financial Services,
a component of General Electric Capital Corporation

Acknowledged and Accepted:

(Legal Name)

By: _____

Title: _____

Date: _____

Fed. ID #: _____

June 25, 2014

8:21 am

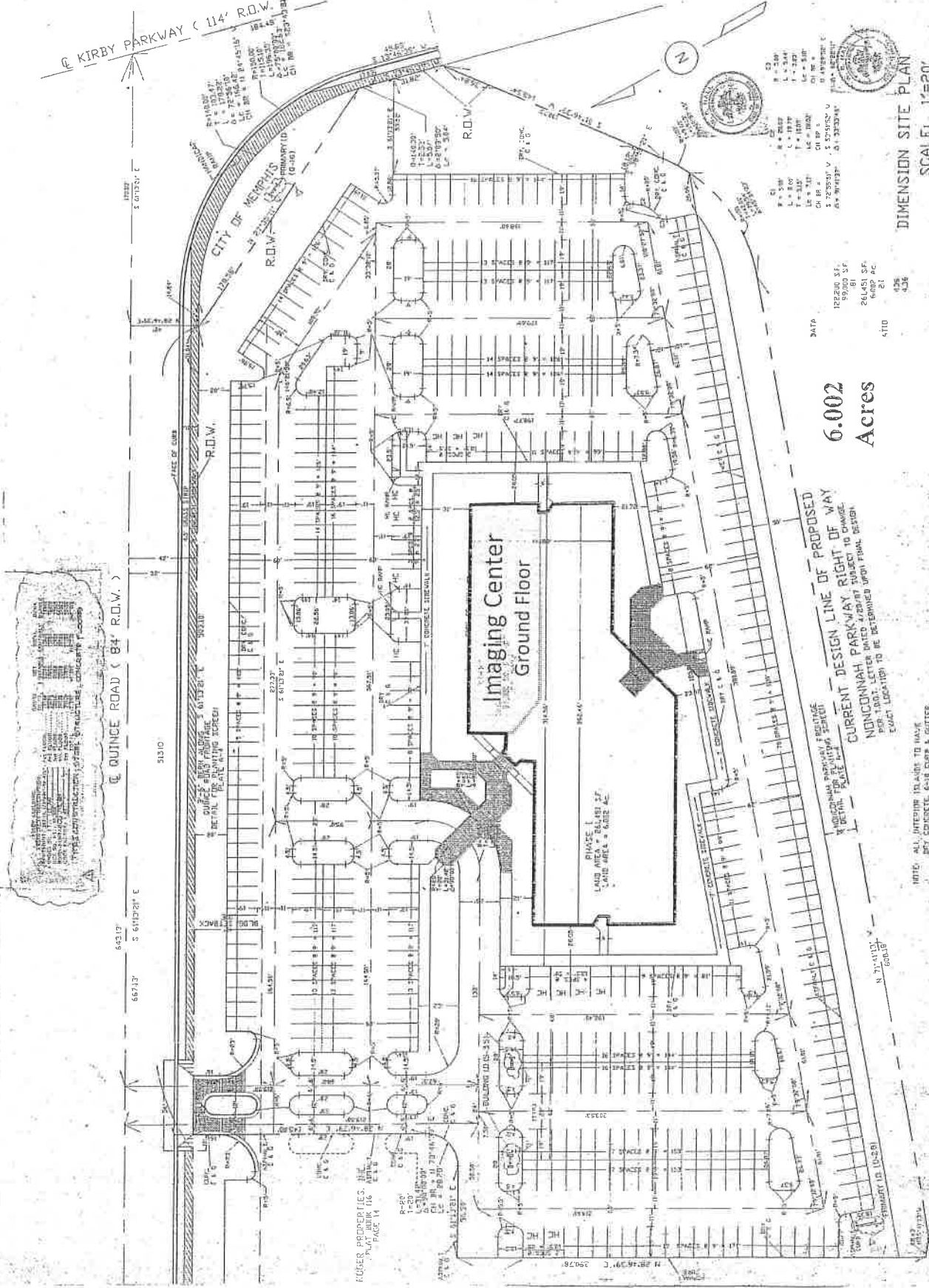
P.J. ARANEO JR. ARCHITECT

PJA

CONTINENTAL ENGINEERING, INC.

KIRBY BUILDING
3958 BUILDFARM CENTER DRIVE JACKSONVILLE, FLORIDA

DATE: 06/25/14
REVIEWED: 06/25/14
SHEET: C-14
OF: 17



6.002 Acres

DIMENSION SITE PLAN
SCALE: 1"=20'

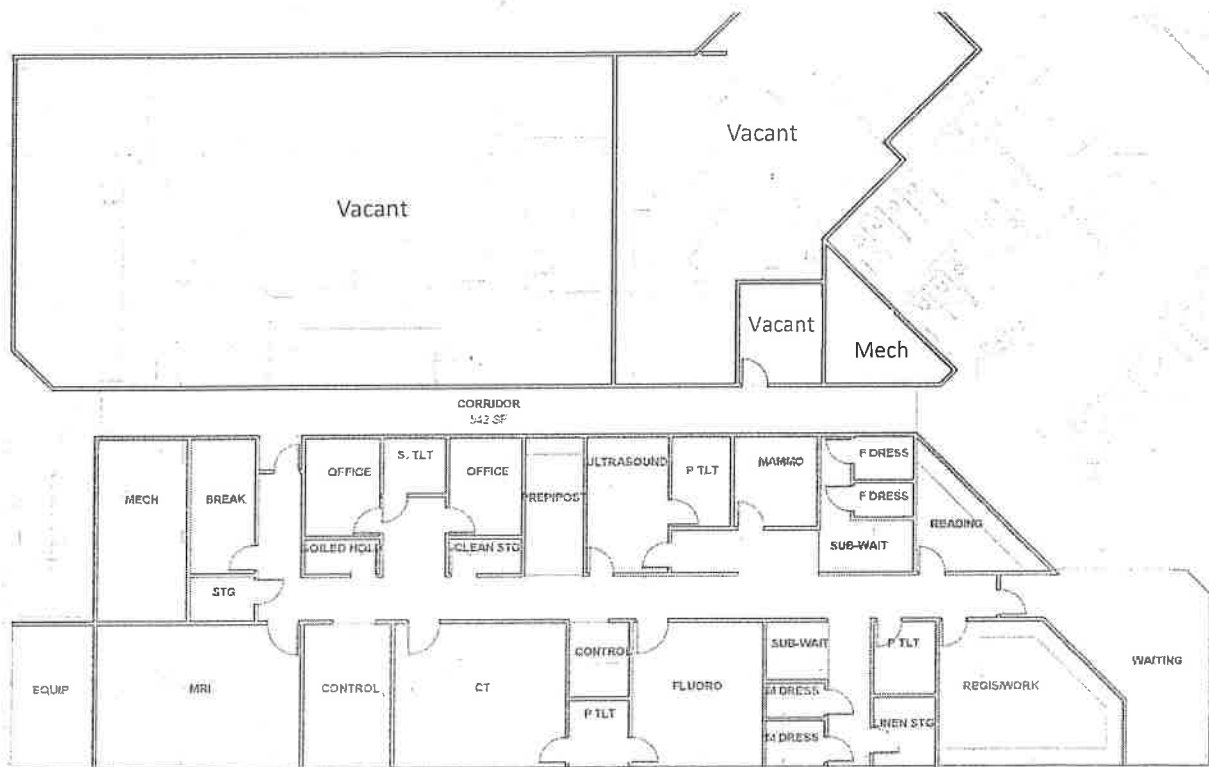
DATA

12220 SF	410
9500 SF	436
261451 SF	21
6002 AC	

NOTE: ALL INTERIOR PLANS TO HAVE DRY CONCRETE 6-IN CORE & OUTLET.



Regional One Health



FIRST FLOOR - ODC

APM

AMERICAN PROGRAM MANAGEMENT

STATE HEALTH PLAN
CERTIFICATE OF NEED STANDARDS AND CRITERIA
FOR
MAGNETIC RESONANCE IMAGING SERVICES

The Health Services and Development Agency (HSDA) may consider the following standards and criteria for applications seeking to provide Magnetic Resonance Imaging (MRI) services. Existing providers of MRI services are not affected by these standards and criteria unless they take an action that requires a new certificate of need (CON) for MRI services.

These standards and criteria are effective immediately as of December 21, 2011, the date of approval and adoption by the Governor of the State Health Plan changes for 2011. Applications to provide MRI services that were deemed complete by HSDA prior to this date shall be considered under the Guidelines for Growth, 2000 Edition.

Definitions

Capacity: The measure of the maximum number of MRI procedures per MRI unit per year based upon the type of MRI equipment.

Dedicated Breast MRI Unit: An MRI unit that is configured to perform only breast MRI procedures and is not capable of performing other types of non-breast MRI procedures.

Dedicated Extremity MRI Unit: An MRI unit that is utilized for the imaging of extremities only and is of open design with a field of view no greater than 25 centimeters.

Magnetic Resonance Imaging (MRI): A noninvasive diagnostic modality in which electronic equipment is used to create tomographic images of body structure. The MRI scanner exposes the target area to non ionizing magnetic energy and radio frequency fields, focusing on the nuclei of atoms such as hydrogen in the body tissue. Response of selected nuclei to this stimulus is translated into images for evaluation by the physician.

MRI Procedure: A single, discrete MRI study performed on a single patient during a

single visit. The Health Services and Development Agency (HSDA) shall be responsible for setting reporting requirements consistent with this definition, including the development of a selected set of CPT codes, which shall not include research-only CPT codes for purposes of determining capacity and need.

MRI Study: An MRI scan defined by a CPT procedure code.

MRI Unit: Medical imaging equipment (often referred to as a "scanner") that uses nuclear magnetic resonance to create tomographic images of body structure. MRI units may be differentiated by magnetic field strength ("tesla" or "T"), and also by construction or orientation. A "closed" scanner typically uses a higher strength magnet and an "open" scanner typically uses a lower strength magnet. There are also "multi-position" or "stand-up" scanners (often used for spine and joint evaluation, where weight-bearing is required) and limited-use scanners, such as those designed only to scan the breast or extremities (e.g., elbows, wrists, toes, etc.).

Mobile MRI Unit: An MRI unit and transporting equipment that is moved or able to be moved to provide services at two or more host facilities, including facilities located in adjoining or contiguous states of the United States.

Mobile MRI Unit Capacity: Total capacity of a mobile MRI unit is 600 annual procedures per day of operation per week and is based upon a daily operating efficiency of 12 procedures per day x 50 weeks per year, multiplied by the number of days per week that the equipment is used. The optimal efficiency of a mobile MRI unit is based upon the number of days per week that it is in operation. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of total capacity.

Dedicated Multi-position MRI Unit: An MRI unit that permits the patient to be scanned in various positions, such as sitting, standing, bending, or leaning, as well as lying down, for the purpose of providing weight-bearing scans.

Service Area: The contiguous counties or portions thereof representing a reasonable area in which an applicant intends to provide MRI unit services and in which at least 75% of its service recipients reside. An MRI unit should be located at a site that allows reasonable access for residents of the service area.

Service Area Capacity: The estimate of the number of MRI units needed in a given service area. The estimate is based upon an optimal efficiency of 2,880 procedures per year for a stationary MRI unit and an optimal efficiency of 480 annual procedures per day of operation per week for a mobile MRI unit

Specialty MRI Unit: A Dedicated Breast, Extremity, or Multi-position MRI

unit. **Stationary MRI Unit:** A non-moveable MRI unit housed at a single permanent location.

Stationary MRI Unit Capacity: Total capacity of a stationary MRI unit is 3600 procedures per year and is based upon a daily operating efficiency of 1.20 procedures per hour, 12 hours per day x 5 days a week x 50 weeks of operation per year. The optimal efficiency for a stationary MRI unit is 80 percent of total capacity, or 2,880 procedures per year.

June 30, 2014**9:30 am****Standards and Criteria****1. Utilization Standards for non-Specialty MRI Units.**

- a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.

Response: Projected 4 year MRI utilization is: 2,363; 2,611; 2,885; and 3,188 (Yrs 1 – 4).

- b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

Response: Not applicable.

- c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

Response: Not applicable.

- d. Mobile MRI units shall not be subject to the need standard in paragraph 1 b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.

Response: Not applicable.

- e. Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI Unit that is combined/utilized with another medical equipment such as a megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.

Response: Not applicable.

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

Response: Based on an internal zip code patient analysis at Regional One Health, approximately 80% of the Hospital's patients requiring outpatient diagnostic services reside within a 20 minute drive of the ODC location. Further, the location of this new ODC will be much closer and more accessible for those patients who reside in the southern and southeastern portion of our service area.

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

Response: The Applicant has researched available technology and has decided that the Optima MR 450w MRI has features most desirable for our particular ODC, including but not limited to high resolution and high signal-to-noise ratio images in short exam times. Please see *Attachment B.II.E.1*.

4. Need Standard for non-Specialty MRI Units.

A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelvemonth period reflected in the provider medical equipment report maintained by the HSDA. The total capacity **per MRI unit is based upon the following formula:**

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 5 days per week x 50 weeks per year = 3,600 procedures per year

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600

procedures per year.

Response: The 2012 MRI utilization data shows that existing MRI units are operating at approximately 99% of the 2,880 standard. However, two units (LeBonheur and St. Jude) are specialty units, and if those units are taken out of consideration, the percentage of MRI Standard would increase to 2,892 procedures per unit.

5. Need Standards for Specialty MRI Units.

- a. Dedicated fixed or mobile Breast MRI Unit. An applicant proposing to **acquire a dedicated fixed or mobile breast MRI unit shall not receive a CON to use the MRI unit for non-dedicated purposes and shall demonstrate that annual utilization of the proposed MRI unit in the third year of operation is projected to be at least 1,600 MRI procedures (.80 times the total capacity of 1 procedure per hour times 40 hours per week times 50 weeks per year), and that:**
 1. It has an **existing and ongoing working relationship with a breast-imaging radiologist or radiology proactive group that has experience interpreting breast images provided by mammography, ultrasound, and MM unit equipment, and that is trained to interpret images produced by an MRI unit configured exclusively for mammographic studies;**
 2. Its existing **mammography equipment, breast ultrasound equipment, and the proposed dedicated breast MRI unit are in compliance with the federal Mammography Quality Standards Act;**
 3. It is part of or has a formal affiliation with an existing healthcare system that provides comprehensive cancer care, including radiation oncology, medical oncology, surgical oncology and an established breast cancer treatment program that is **based in the proposed service area.**
 4. It has an existing relationship with an established collaborative team for the treatment of breast cancer that includes radiologists, pathologists, radiation oncologists, hematologist/oncologists, surgeons, obstetricians/gynecologists, **and primary care providers.**

Response: Not applicable.

- b. Dedicated fixed or mobile Extremity MR1 Unit. An applicant proposing to institute a Dedicated fixed or mobile Extremity MR1 Unit shall provide documentation of the total capacity of the proposed MR1 Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MR1 procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Extremity MRI Unit and a CON granted for this use should so state on its face.

Response: Not applicable.

- c. Dedicated fixed or mobile Multi-position MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Multi-position MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Multi-position MRI Unit and a CON granted for this use should so state on its face.

Response: Not applicable.

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units. If data availability permits, Breast, Extremity, and Multi-position MRI Units shall not be counted in the inventory of non-Specialty fixed or mobile MRI Units, and an inventory for each category of Specialty MRI Unit shall be counted and maintained separately. None of the Specialty MRI Units may be replaced with non-Specialty MRI fixed or mobile MRI Units and a Certificate of Need granted for any of these Specialty MRI Units shall have included on its face a statement to that effect. A non-Specialty fixed or mobile MRI Unit for which a CON is granted for Specialty MRI Unit purpose use-only shall be counted in the specific Specialty MRI Unit inventory and shall also have stated on the face of its Certificate of Need that it may not be used for non-Specialty MRI purposes.

Response: Not applicable.

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

- a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

Response: The MRI is FDA approved. Please see *Attachment B.II.E.1.*

- b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

Response: The MRI procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

- c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

Response: The Applicant's Owner (Regional One Health) has protocols in place to ensure emergencies will be managed in conformity with accepted medical practice. These protocols will be replicated in the ODC.

- d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

Response: The Applicant's Owner (Regional One Health) has protocols in place to ensure that all clinical procedures performed are medically necessary and will not unnecessarily duplicate other services. These protocols will be replicated in the ODC.

- e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

Response: The Applicant will meet such staffing recommendations and requirements.

- f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

Response: The Applicant plans to file for ACR accreditation.

- g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

Response: The Applicant's Owner (Regional One Health) has such agreements, and the same agreements will be pursued and implemented by the Applicant.

- 8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

Response: The Applicant will provide all data contemplated by this question.

- 9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:
 - a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

Response: Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant.

In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B.*

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The

approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary, including minorities and low income patients.

- b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

Response: Not applicable.

- c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

Response: Regional One Health has TennCare contracts with UHC/Americhoice, Blue Care and TennCare Select. The Applicant, as a wholly-owned subsidiary, will pursue the same contracts.

The Applicant will contract with any new MCOs that provide services in the area.

Attachment A.13 shows the grand divisions of the State of Tennessee, by MCO coverage.

- d. Who is proposing to use the MR1 unit for patients that typically require longer preparation and scanning times (e.g., pediatric, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

Response: Not applicable.

Rationale for Revised and Updated Standards and Criteria for Magnetic Resonance Imaging Services

Definitions

Specialty MRI Units. The Office of Health Planning recognizes that certain MRI Units dedicated for breast, extremity, and multi-position purposes do not reach the level of utilization that standard MRI Units do. Consequently, definitions for these Specialty Units have been created and specific standards for each have been developed.

MRI Procedure. To provide for uniform procedure reporting, the Health Services and Development Agency is responsible for setting CPT code reporting requirements consistent with the definition of MRI Procedure. Research CPT codes are excluded from capacity and need calculations.

Capacity. The Office solicited operating schedule information from owners/operators of MRI Units. From this information, while total capacity of a non-Specialty MRI Unit could conceivably be based on an operating schedule of 24 hours per day, 7 days per week, usual practice does not cover such extended hours of operation. It appears that physician offices and outpatient diagnostic centers more usually operate their MRI Units Monday-Friday; inpatient facilities typically operate Monday-Friday, with the potential to operate on Saturdays as needed. There are exceptions, however, with both outpatient and inpatient MRI Units operating more than five days a week. Hours of operation vary and seem to not be dependent upon outpatient or inpatient use, usually from 12 to 16 hours per day. Utilization and operating practices can and do vary widely.

Additionally, from the information received, the length of time per scan varies depending on a variety of circumstances, including protocols in place, whether a patient is sedated or needs longer time to be placed in the unit, whether the scan is with or without contrast, etc. A scan may take as little as 30 minutes or as long as 80 (or more) minutes. Typically, due to sedation and/or contrast requirements, an inpatient facility will take longer to perform its scans. However, Tennessee does not collect sufficient data on these scans in order to develop a total capacity formula based on them.

We are basing a total non-Specialty MRI unit capacity number on the performance of 1.20 scans per hour, Monday through Friday utilization, 12 hours a day, 50 weeks a year, for a total capacity number of 3,600. Using an 80% optimal efficiency number, we arrive at 2,880 as the number of scans a year that a typical stationary non-Specialty MRI Unit should be able to perform.

Standards and Criteria Regarding Certificate of Need Applications for Magnetic Resonance Imaging Services

1. **Exceptions to Utilization Standards:** Exceptions to the standard number of procedures has been retained for new or improved technology and diagnostic applications, and for mobile MRI Units in operation fewer than 150 days of service per year. Applications for hybrid MRI Units (e.g., MRI Units combined with PET Units or MRT Units) may be assessed under the primary use of the hybrid unit.
2. **Other Access Issues:** The provision of health care doesn't recognize state boundaries. Accordingly, applicants may include non-Tennessee counties in proposed service areas if that data are available.
3. **Economic Efficiencies:** To support the goal of reducing health care costs, applicants should document that other options have been investigated and found less advantageous.
4. **Specialty **MRI** Units Standards:** Dedicated Breast MRI Units have a proposed total capacity estimate of 2,000 procedures per year. Dedicated Extremity and Dedicated Multi-position MRI Units do not have a defined estimate; an applicant must demonstrate total capacity as well as its estimated annual utilization that, by the third year, will be at least 80% of total capacity.
5. **Inventories:** Given that there are proposed different standards for Specialty and non-Specialty MRI Units, separate inventories should be maintained. Additionally, a CON granted for the institution of a Specialty MRI Unit should not be permitted to be used for non-Specialty MRI purposes; it is recommended that any CON granted for Specialty MRI purposes so state on its face.
6. **Quality of Care:** Specific staffing, training, and education standards are included to help ensure patient safety and quality of care provided.

OUTPATIENT DIAGNOSTIC CENTERS

1. **The need for outpatient diagnostic services shall be determined on a county by county basis (with data presented for contiguous counties for comparative purposes) and should be projected four years into the future using available population figures.**

Response: The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of the Applicant's service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant's service area will surely mimic that of the hospital.

2. **Approval of additional outpatient diagnostic services will be made only when it is demonstrated that existing services in the applicant's geographical service area are not adequate and/or there are special circumstances that require additional services.**

Response: The Hospital provides all of the stated services at its facility on Jefferson Avenue in downtown Memphis. However, such diagnostic services are over-utilized at the Hospital due to a combination of factors, including inpatient use, emergency patient use, and the fact that the Hospital operates the third most active Trauma Center in the United States. Due to the high demand at the Hospital, the scheduling of diagnostic services – especially elective services – result in long wait times for patients and providers alike. The Applicant projects future need/demand for diagnostic services at the same rate utilization of these services have increased at the Hospital. Therefore, additional diagnostic services are needed, and it was deemed prudent to open up an ODC in a more convenient location for outpatients. The Hospital already has the MOB under lease, and sufficient space is available on the first floor of that building for the ODC.

3. **Any special needs and circumstances:**

- a. **The needs of both medical and outpatient diagnostic facilities and services must be analyzed.**

Response: Please note response to #2 above. In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B.*

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary; including minorities and low income patients.

- b. Other special needs and circumstances, which might be pertinent, must be analyzed.**

Response: Please note response to #2 above. In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B*.

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary, including minorities and low income patients.

- c. The applicant must provide evidence that the proposed diagnostic outpatient services will meet the needs of the potential clientele to be served.**

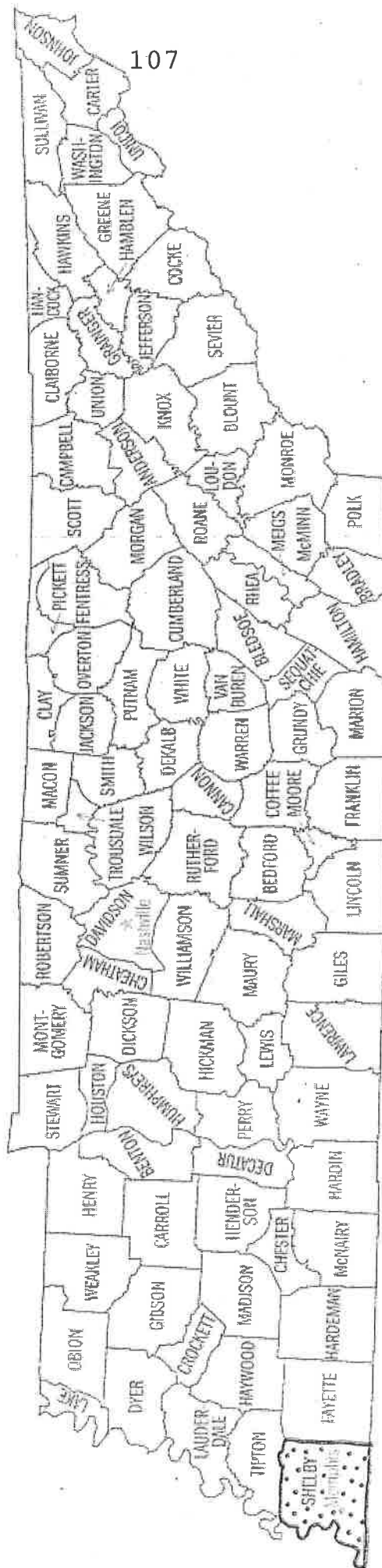
- 1. The applicant must demonstrate how emergencies within the outpatient diagnostic facility will be managed in conformity with accepted medical practice.**

Response: The Applicant's Owner (Regional One Health) has protocols in place to ensure emergencies will be managed in conformity with accepted medical practice. These protocols will be replicated in the ODC.

- 2. The applicant must establish protocols that will assure that all clinical procedures performed are medically necessary and will not unnecessarily duplicate other services.**

Response: The Applicant's Owner (Regional One Health) has protocols in place to ensure that all clinical procedures performed are medically necessary and will not unnecessarily duplicate other services. These protocols will be replicated in the ODC.

Tennessee County Map



State & County QuickFacts

Shelby County, Tennessee

People QuickFacts	Shelby County	Tennessee
Population, 2011 estimate	935,088	6,403,353
Population, 2010 (April 1) estimates base	927,644	6,346,110
Population, percent change, April 1, 2010 to July 1, 2011	0.8%	0.9%
Population, 2010	927,644	6,346,105
Persons under 5 years, percent, 2011	7.2%	6.3%
Persons under 18 years, percent, 2011	26.1%	23.3%
Persons 65 years and over, percent, 2011	10.4%	13.7%
Female persons, percent, 2011	52.3%	51.3%
White persons, percent, 2011 (a)	43.6%	79.5%
Black persons, percent, 2011 (a)	52.3%	16.8%
American Indian and Alaska Native persons, percent, 2011 (a)	0.4%	0.4%
Asian persons, percent, 2011 (a)	2.4%	1.5%
Native Hawaiian and Other Pacific Islander persons, percent, 2011 (a)	0.1%	0.1%
Persons reporting two or more races, percent, 2011	1.3%	1.6%
Persons of Hispanic or Latino Origin, percent, 2011 (b)	5.8%	4.7%
White persons not Hispanic, percent, 2011	38.6%	75.4%
Living in same house 1 year & over, 2006-2010	81.6%	83.8%
Foreign born persons, percent, 2006-2010	6.0%	4.4%
Language other than English spoken at home, pct age 5+, 2006-2010	8.5%	6.2%
High school graduates, percent of persons age 25+, 2006-2010	84.9%	82.5%
Bachelor's degree or higher, pct of persons age 25+, 2006-2010	27.8%	22.7%
Veterans, 2006-2010	62,382	505,746
Mean travel time to work (minutes), workers age 16+, 2006-2010	22.4	23.9
Housing units, 2010	398,274	2,812,133
Homeownership rate, 2006-2010	61.7%	69.6%
Housing units in multi-unit structures, percent, 2006-2010	27.6%	18.1%
Median value of owner-occupied housing units, 2006-2010	\$135,300	\$134,100
Households, 2006-2010	340,443	2,443,475
Persons per household, 2006-2010	2.65	2.49
Per capita money income in past 12 months (2010 dollars) 2006-2010	\$25,002	\$23,722
Median household income 2006-2010	\$44,705	\$43,314
Persons below poverty level, percent, 2006-2010	19.7%	16.5%
Business QuickFacts	Shelby County	Tennessee
Private nonfarm establishments, 2009	20,262	132,901 ¹
Private nonfarm employment, 2009	428,357	2,317,986 ¹
Private nonfarm employment, percent change 2000-2009	-10.3%	-3.0% ¹
Nonemployer establishments, 2009	70,282	448,516
Total number of firms, 2007	76,350	545,348
Black-owned firms, percent, 2007	30.9%	8.4%
American Indian- and Alaska Native-owned firms, percent, 2007	0.3%	0.5%
Asian-owned firms, percent, 2007	3.4%	2.0%
Native Hawaiian and Other Pacific Islander-owned firms, percent, 2007	0.1%	0.1%
Hispanic-owned firms, percent, 2007	1.7%	1.6%
Women-owned firms, percent, 2007	30.8%	25.9%
Manufacturers shipments, 2007 (\$1000)	17,969,681	140,447,760

Merchant wholesaler sales, 2007 (\$1000)	29,536,012	80,116,528
Retail sales, 2007 (\$1000)	11,932,863	77,547,291
Retail sales per capita, 2007	\$12,971	\$12,563
Accommodation and food services sales, 2007 (\$1000)	1,787,954	10,626,759
Building permits, 2011	1,400	14,977
Federal spending, 2010	10,393,200	68,865,540 ¹

Geography QuickFacts	Shelby County	Tennessee
Land area in square miles, 2010	763.17	41,234.90
Persons per square mile, 2010	1,215.5	153.9
FIPS Code	157	47
Metropolitan or Micropolitan Statistical Area	Memphis, TN-MS-AR Metro Area	

1: Includes data not distributed by county.

(a) Includes persons reporting only one race.

(b) Hispanics may be of any race, so also are included in applicable race categories.

D: Suppressed to avoid disclosure of confidential information

F: Fewer than 100 firms

FN: Footnote on this item for this area in place of data

NA: Not available

S: Suppressed; does not meet publication standards

X: Not applicable

Z: Value greater than zero but less than half unit of measure shown

Source: U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, American Community Survey, Census of Population and Housing, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits, Consolidated Federal Funds Report
Last Revised: Thursday, 07-Jun-2012 13:40:15 EDT

State & County QuickFacts

Tennessee

People QuickFacts	Tennessee	USA
Population, 2011 estimate	6,403,353	311,591,917
Population, 2010	6,346,105	308,745,538
Population, percent change, 2000 to 2010	11.5%	9.7%
Population, 2000	5,689,283	281,421,906
Persons under 5 years, percent, 2010	6.4%	6.5%
Persons under 18 years, percent, 2010	23.6%	24.0%
Persons 65 years and over, percent, 2010	13.4%	13.0%
Female persons, percent, 2010	51.3%	50.8%
White persons, percent, 2010 (a)	77.6%	72.4%
Black persons, percent, 2010 (a)	16.7%	12.6%
American Indian and Alaska Native persons, percent, 2010 (a)	0.3%	0.9%
Asian persons, percent, 2010 (a)	1.4%	4.8%
Native Hawaiian and Other Pacific Islander, percent, 2010 (a)	0.1%	0.2%
Persons reporting two or more races, percent, 2010	1.7%	2.9%
Persons of Hispanic or Latino origin, percent, 2010 (b)	4.6%	16.3%
White persons not Hispanic, percent, 2010	75.6%	63.7%
Living in same house 1 year & over, 2006-2010	83.8%	84.2%
Foreign born persons, percent, 2006-2010	4.4%	12.7%
Language other than English spoken at home, pct age 5+, 2006-2010	6.2%	20.1%
High school graduates, percent of persons age 25+, 2006-2010	82.5%	85.0%
Bachelor's degree or higher, pct of persons age 25+, 2006-2010	22.7%	27.9%
Veterans, 2006-2010	505,746	22,652,496
Mean travel time to work (minutes), workers age 16+, 2006-2010	23.9	25.2
Housing units, 2010	2,812,133	131,704,730
Homeownership rate, 2006-2010	69.6%	66.6%
Housing units in multi-unit structures, percent, 2006-2010	18.1%	25.9%
Median value of owner-occupied housing units, 2006-2010	\$134,100	\$188,400
Households, 2006-2010	2,443,475	114,235,996
Persons per household, 2006-2010	2.49	2.59
Per capita money income in past 12 months (2010 dollars) 2006-2010	\$23,722	\$27,334
Median household income 2006-2010	\$43,314	\$51,914
Persons below poverty level, percent, 2006-2010	16.5%	13.8%
Business QuickFacts	Tennessee	USA
Private nonfarm establishments, 2009	132,901 ¹	7,433,465
Private nonfarm employment, 2009	2,317,986 ¹	114,509,626

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Private nonfarm employment, percent change 2000-2009	-3.0% ¹	0.4%
Nonemployer establishments, 2009	448,516	21,090,761
Total number of firms, 2007	545,348	27,092,908
Black-owned firms, percent, 2007	8.4%	7.1%
American Indian- and Alaska Native-owned firms, percent, 2007	0.5%	0.9%
Asian-owned firms, percent, 2007	2.0%	5.7%
Native Hawaiian and Other Pacific Islander-owned firms, percent, 2007	0.1%	0.1%
Hispanic-owned firms, percent, 2007	1.6%	8.3%
Women-owned firms, percent, 2007	25.9%	28.8%
Manufacturers shipments, 2007 (\$1000)	140,447,760	5,338,306,501
Merchant wholesaler sales, 2007 (\$1000)	80,116,528	4,174,286,516
Retail sales, 2007 (\$1000)	77,547,291	3,917,663,456
Retail sales per capita, 2007	\$12,563	\$12,990
Accommodation and food services sales, 2007 (\$1000)	10,626,759	613,795,732
Building permits, 2010	16,475	604,610
Federal spending, 2009	65,525,306 ¹	3,175,336,050 ²

Geography QuickFacts**Tennessee USA**

Land area in square miles, 2010	41,234.90	3,531,905.43
Persons per square mile, 2010	153.9	87.4
FIPS Code	47	

1: Includes data not distributed by county.

2: Includes data not distributed by state.

Population estimates for counties will be available in April, 2012 and for cities in June, 2012.

(a) Includes persons reporting only one race.

(b) Hispanics may be of any race, so also are included in applicable race categories.

D: Suppressed to avoid disclosure of confidential information

F: Fewer than 100 firms

FN: Footnote on this item for this area in place of data

NA: Not available

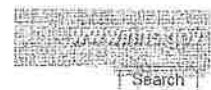
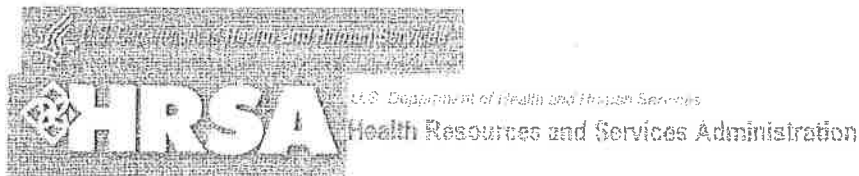
S: Suppressed; does not meet publication standards

X: Not applicable

Z: Value greater than zero but less than half unit of measure shown

Source U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, American Community Survey, Census of Population and Housing, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits, Consolidated Federal Funds Report

Last Revised: Tuesday, 17-Jan-2012 16:41:36 EST



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Find Shortage Areas: MUA/P by State and County

[Shortage Designation Home](#)[Find Shortage Areas](#)[HPSA & MUA/P by Address](#)[HPSA by State & County](#)[HPSA Eligible for the Medicare Physician Bonus Payment](#)

Criteria:

State: Tennessee

County: Shelby County

ID #: All

Results: 58 records found.

Name	ID#	Type	Score	Designation Date	Update Date
Shelby County					
Shelby Service Area	03249	MUA	56.50	1994/07/12	
CT 0201.00					
CT 0202.10					
CT 0205.12					
Shelby Service Area					
CT 0216.20	03250	MUA	51.00	1994/07/12	
CT 0219.00					
CT 0220.10					
CT 0220.21					
CT 0220.22					
CT 0221.11					
CT 0221.12					
CT 0222.10					
CT 0222.20					
CT 0223.10					
CT 0223.21					
CT 0223.30					
CT 0224.10					
CT 0224.21					
Nw Memphis Service Area					
CT 0002.00	07469	MUA	56.00	2005/04/06	
CT 0003.00					
CT 0004.00					
CT 0005.00					
CT 0006.00					
CT 0007.00					
CT 0008.00					
CT 0009.00					
CT 0010.00					
CT 0011.00					
CT 0012.00					
CT 0013.00					
CT 0014.00					
CT 0015.00					
CT 0017.00					
CT 0018.00					
CT 0019.00					
CT 0020.00					
CT 0021.00					
CT 0022.00					
CT 0023.00					
CT 0024.00					
CT 0025.00					
CT 0027.00					
CT 0028.00					
CT 0030.00					
CT 0038.00					
CT 0089.00					
CT 0090.00					
CT 0099.00					
CT 0100.00					
CT 0101.10					
CT 0101.20					
CT 0102.10					
CT 0102.20					
CT 0103.00					
CT 0205.21					
CT 0205.22					

NEW SEARCH

MODIFY SEARCH CRITERIA



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Health Resources and Services Administration

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Find Shortage Areas: HPSA by State & County

[Shortage Designation Home](#)[Find Shortage Areas](#)[HPSA & MUA/P by Address](#)[HPSA Eligible for the Medicare Physician Bonus Payment](#)[MUA/P by State & County](#)

Criteria:

State: Tennessee

County: Shelby County

ID: All

Date of Last Update: All Dates

HPSA Score (lower limit): 0

Discipline: Primary Medical Care

Metro: All

Status: Designated

Type: All

Results: 113 records found.

(Satellite sites of Comprehensive Health Centers automatically assume the HPSA score of the affiliated grantee. They are not listed separately.)

HPSA Name	ID	Type	FTE	# Short	Score
157 - Shelby County					
Low Income - N.W. Memphis-Frayser	1479994706	Population Group	20	6	15
C.T. 0002.00		Census Tract			
C.T. 0003.00		Census Tract			
C.T. 0004.00		Census Tract			
C.T. 0005.00		Census Tract			
C.T. 0006.00		Census Tract			
C.T. 0007.00		Census Tract			
C.T. 0008.00		Census Tract			
C.T. 0009.00		Census Tract			
C.T. 0010.00		Census Tract			
C.T. 0011.00		Census Tract			
C.T. 0012.00		Census Tract			
C.T. 0013.00		Census Tract			
C.T. 0014.00		Census Tract			
C.T. 0015.00		Census Tract			
C.T. 0017.00		Census Tract			
C.T. 0018.00		Census Tract			
C.T. 0019.00		Census Tract			
C.T. 0020.00		Census Tract			
C.T. 0021.00		Census Tract			
C.T. 0022.00		Census Tract			
C.T. 0023.00		Census Tract			
C.T. 0024.00		Census Tract			
C.T. 0025.00		Census Tract			
C.T. 0027.00		Census Tract			
C.T. 0028.00		Census Tract			
C.T. 0030.00		Census Tract			
C.T. 0036.00		Census Tract			
C.T. 0089.00		Census Tract			
C.T. 0090.00		Census Tract			
C.T. 0099.00		Census Tract			
C.T. 0100.00		Census Tract			
C.T. 0101.10		Census Tract			
C.T. 0101.20		Census Tract			
C.T. 0102.10		Census Tract			
C.T. 0102.20		Census Tract			
C.T. 0103.00		Census Tract			
C.T. 0205.11		Census Tract			
C.T. 0205.12		Census Tract			
C.T. 0205.21		Census Tract			
C.T. 0205.22		Census Tract			
Low Income - Southwest Memphis	1479994707	Population Group	40	2	8
C.T. 0037.00		Census Tract			
C.T. 0038.00		Census Tract			
C.T. 0039.00		Census Tract			
C.T. 0040.00		Census Tract			
C.T. 0041.00		Census Tract			
C.T. 0044.00		Census Tract			
C.T. 0045.00		Census Tract			
C.T. 0046.00		Census Tract			
C.T. 0047.00		Census Tract			
C.T. 0048.00		Census Tract			
C.T. 0049.00		Census Tract			
C.T. 0050.00		Census Tract			
C.T. 0051.00		Census Tract			
C.T. 0053.00		Census Tract			
C.T. 0054.00		Census Tract			
C.T. 0055.00		Census Tract			
C.T. 0056.00		Census Tract			
C.T. 0057.00		Census Tract			
C.T. 0058.00		Census Tract			
C.T. 0059.00		Census Tract			
C.T. 0060.00		Census Tract			
C.T. 0061.00		Census Tract			
C.T. 0062.00		Census Tract			
C.T. 0063.00		Census Tract			
C.T. 0064.00		Census Tract			
C.T. 0065.00		Census Tract			
C.T. 0066.00		Census Tract			
C.T. 0067.00		Census Tract			
C.T. 0068.00		Census Tract			

C.T. 0059.00		Census Tract			
C.T. 0070.00		Census Tract			
C.T. 0073.00		Census Tract			
C.T. 0074.00		Census Tract			
C.T. 0075.00		Census Tract			
C.T. 0078.10		Census Tract			
C.T. 0078.21		Census Tract			
C.T. 0078.22		Census Tract			
C.T. 0079.00		Census Tract			
C.T. 0080.00		Census Tract			
C.T. 0081.10		Census Tract			
C.T. 0081.20		Census Tract			
C.T. 0082.00		Census Tract			
C.T. 0084.00		Census Tract			
C.T. 0104.10		Census Tract			
C.T. 0104.20		Census Tract			
C.T. 0105.00		Census Tract			
C.T. 0106.10		Census Tract			
C.T. 0106.20		Census Tract			
C.T. 0106.30		Census Tract			
C.T. 0108.10		Census Tract			
C.T. 0109.00		Census Tract			
C.T. 0110.10		Census Tract			
C.T. 0110.20		Census Tract			
C.T. 0217.31		Census Tract			
C.T. 0220.10		Census Tract			
C.T. 0220.21		Census Tract			
C.T. 0220.22		Census Tract			
C.T. 0221.11		Census Tract			
C.T. 0221.12		Census Tract			
C.T. 0222.10		Census Tract			
C.T. 0222.20		Census Tract			
C.T. 0223.10		Census Tract			
C.T. 0223.21		Census Tract			
C.T. 0223.22		Census Tract			
C.T. 0223.30		Census Tract			
C.T. 0224.10		Census Tract			
C.T. 0224.21		Census Tract			
C.T. 0224.22		Census Tract			
Federal Correctional Institution - Memphis	1479994730	Correctional Facility	0	1	12
Christ Community Health Services, Inc.	1479994793	Comprehensive Health Center	0	17	17
Memphis Health Center, Inc.	1479994795	Comprehensive Health Center	0	17	17
NEW SEARCH					
MODIFY SEARCH CRITERIA					

NOTE: On Thursday November 3, 2011, the list of designated HPSAs was updated to reflect the publication of the Federal Register Notice with the list of designated HPSAs as of September 1, 2011. HPSAs that were designated after September 1, 2011 are considered designated even though they are not on the federal register listing; HPSAs that have been placed in "proposed for withdrawal" or "no new data" status since September 1, 2011 will remain in that status until the publication of the next federal register notice. If there are any questions about the status of a particular HPSA or area, we recommend that you contact the state primary care office in your state; a listing can be obtained at <http://bhpr.hrsa.gov/shortage/hpsas/primarycareoffices.html>.

June 12, 2014

J. Richard Wagers, Jr.
Regional One Health Imaging, LLC
877 Jefferson Avenue
Memphis, TN 38103

Dear Mr. Wagers,

As Project Manager for the Regional One Health Imaging, LLC build-out at Kirby Center in Memphis, I have reviewed the construction costs for this project, and believe that in addition to the tenant build out allowance that is paid by the developer, \$249,000 is a sufficient estimate to complete this project. Further, this estimate has been prepared taking into account that the project will be completed to provide a physical environment compliant with all applicable federal, state and local construction codes, standards, specifications, and requirements, and the physical environment will conform to applicable federal standards, manufacturer's specifications and licensing agencies' requirements including the 2010 AIA Guidelines for Design and Construction of Health Care Facilities.

Sincerely,



Warren N. Goodwin, FAIA
President & CEO

Cc: Graham Baker



103 Continental Place, Suite 100
Brentwood, TN 37027
www.apmproject.com
Certified Veteran Owned Small Business



Regional One Health

June 11, 2014

Melanie Hill, Executive Director
Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

Re: Regional One Health Imaging, LLC, owned by
Shelby County Health Care Corporation, d/b/a, Regional One Health

Mrs. Hill,

I am the Chief Financial Officer for Shelby County Health Care Corporation. Our latest financials, submitted with our Certificate of Need application, show that we have sufficient cash reserves to fund the \$817,350 indicated cash portion of the project (plus working capital required to absorb start-up losses). While the project totals over \$5.3 million, the balance of the project cost includes eleven years of facility rent and leasing/maintenance costs for medical equipment.

This is to notify you that our cash reserves are both available and dedicated to this project.

Please contact me if you have any questions.

Sincerely,

J. Richard Wagers, Jr.
Senior Executive Vice President & CFO



June 10, 2014

Regional One Health Imaging, LLC
877 Jefferson Avenue
Memphis, TN 38103

Attn: Reginald W. Coopwood, MD, President/CEO

Dear Dr. Coopwood:

Please let this letter serve as documentation of support for expansion of imaging services for Regional One Health to an additional location at 6555 Quince Rd., Memphis, TN.

As you know, Campbell Clinic serves as the University of Tennessee College of Medicine's Department of Orthopedics and train 18 full-time equivalent residents at Regional One Health. In this capacity, we treat numerous Regional One patients in a variety of settings, including its trauma center, general inpatient units and outpatient clinics.

Given the range of imaging needs of these patients and that Regional One only has one MRI unit located in the hospital, many of its outpatients have limited timely access to imaging services. This access situation is further complicated because the radiology department is difficult to find and has limited proximity to convenient parking. Lastly, the hospital's location near downtown Memphis limits its access to many residents of Shelby County.

As such, the addition of the imaging services at 6555 Quince Rd. will improve capacity, access and service levels for the patients we collectively care for at Regional One Health.

Sincerely,

Frederick M. Azar, M.D.
Chief of Staff

George A. Hernandez
Chief Executive Officer



SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Basic Financial Statements and Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

SHELBY COUNTY HEALTH CARE CORPORATION
 (A Component Unit of Shelby County, Tennessee)

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KPMG LLP
Suite 900
50 North Front Street
Memphis, TN 38103-1194

Independent Auditors' Report

The Board of Directors
Shelby County Health Care Corporation:

Report on the Financial Statements

We have audited the accompanying statements of net position and statements of revenues, expenses, and changes in net position and cash flows of Shelby County Health Care Corporation, a component unit of Shelby County, Tennessee (d/b/a The Regional Medical Center at Memphis – The Med) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of Shelby County Health Care Corporation as of June 30, 2013 and 2012, and the respective changes in net position and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Med's basic financial statements. The supplementary information included in Schedule 1, 2, and 3 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 on our consideration of The Med's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Med's internal control over financial reporting and compliance.

KPMG LLP

Memphis, Tennessee
October 18, 2013

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Statements of Net Position

June 30, 2013 and 2012

Assets	2013	2012
Assets:		
Cash and cash equivalents	\$ 15,471,067	18,647,650
Investments	121,197,478	122,945,621
Patient accounts receivable, net of allowances for uncollectible accounts of \$102,548,000 in 2013 and \$119,208,000 in 2012	45,906,287	50,147,138
Other receivables	9,870,264	8,543,744
Other current assets	4,974,546	4,306,744
Restricted investments	3,720,087	3,323,723
Capital assets, net	87,769,941	63,111,622
Total assets	\$ 288,909,670	271,026,242
Liabilities and Net Position		
Liabilities:		
Accounts payable	\$ 12,042,438	9,658,526
Accrued expenses and other current liabilities	27,518,945	27,159,845
Accrued professional and general liability costs	5,200,000	6,018,000
Net postemployment benefit obligation	912,000	912,000
Total liabilities	45,673,383	43,748,371
Net position:		
Net investment in capital assets	87,769,941	63,111,622
Restricted for:		
Capital assets	2,897,689	2,572,798
Indigent care	822,398	750,925
Unrestricted	151,746,259	160,842,526
Total net position	243,236,287	227,277,871
Commitments and contingencies		
Total liabilities and net position	\$ 288,909,670	271,026,242

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Net patient service revenue (including additional incremental reimbursement from various state agencies for participation in TennCare/Medicaid programs of approximately \$72,928,000 in 2013 and \$80,997,000 in 2012)	\$ 303,785,730	325,541,073
Other revenue	17,299,369	10,225,345
Total operating revenues	<u>321,085,099</u>	<u>335,766,418</u>
Operating expenses:		
Salaries and benefits	150,862,502	146,617,414
Supplies and services	70,047,247	67,116,810
Physician and professional fees	27,904,579	25,813,984
Purchased medical services	23,827,404	22,226,761
Plant operations	12,348,849	13,171,232
Insurance	2,011,533	2,820,277
Administrative and general	31,961,705	22,734,934
Community services	632,390	1,380,063
Depreciation and amortization	13,000,644	11,391,621
Total operating expenses	<u>332,596,853</u>	<u>313,273,096</u>
Operating (loss) gain	<u>(11,511,754)</u>	<u>22,493,322</u>
Nonoperating revenues:		
Investment income	347,504	1,423,480
Appropriations from Shelby County	26,816,001	26,816,511
Other	306,665	2,662
Total nonoperating revenues	<u>27,470,170</u>	<u>28,242,653</u>
Increase in net position	15,958,416	50,735,975
Net position, beginning of year	<u>227,277,871</u>	<u>176,541,896</u>
Net position, end of year	<u>\$ 243,236,287</u>	<u>227,277,871</u>

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients and third-party payors	\$ 307,747,888	304,745,173
Other cash receipts	16,361,590	10,172,165
Payments to suppliers	(166,237,587)	(156,711,192)
Payments to employees and related benefits	(152,211,460)	(143,356,032)
Net cash provided by operating activities	<u>5,660,431</u>	<u>14,850,114</u>
Cash flows from noncapital financing activity:		
Appropriations received from Shelby County	<u>26,816,001</u>	<u>26,816,511</u>
Net cash provided by noncapital financing activity	<u>26,816,001</u>	<u>26,816,511</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(37,669,963)	(20,703,680)
Proceeds from sale of capital assets	40,600	18,637
Net cash used in capital and related financing activities	<u>(37,629,363)</u>	<u>(20,685,043)</u>
Cash flows from investing activities:		
Purchases of investments	(236,280,471)	(152,418,086)
Proceeds from sale of investments	240,307,747	101,347,058
Distributions received from joint venture	277,065	—
Investment income proceeds	(2,327,993)	1,919,634
Net cash provided by (used in) investing activities	<u>1,976,348</u>	<u>(49,151,394)</u>
Net decrease in cash and cash equivalents	<u>(3,176,583)</u>	<u>(28,169,812)</u>
Cash and cash equivalents, beginning of year	<u>18,647,650</u>	<u>46,817,462</u>
Cash and cash equivalents, end of year	<u>\$ 15,471,067</u>	<u>18,647,650</u>

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Statements of Cash Flows
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating (loss) gain to net cash provided by operating activities:		
Operating (loss) gain	\$ (11,511,754)	22,493,322
Adjustment to reconcile operating (loss) gain to net cash provided by operating activities:		
Depreciation and amortization	13,000,644	11,391,621
Changes in operating assets and liabilities:		
Patients accounts receivable, net	4,240,851	(20,747,895)
Other receivables	(1,326,520)	(156,760)
Other current assets	(667,802)	(520,021)
Accounts payable	2,383,912	2,806,081
Accrued expenses and other current liabilities	359,100	65,766
Accrued professional and general liability costs	(818,000)	(482,000)
Net cash provided by operating activities	<u>\$ 5,660,431</u>	<u>14,850,114</u>
Supplemental schedule of noncash investing and financing activities:		
Net decrease in the fair value of investments	\$ 2,674,511	486,477
Gain on capital asset disposals	29,600	2,662

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Notes to Basic Financial Statements

June 30, 2013 and 2012

(1) Organization and Summary of Significant Accounting Policies

Shelby County Health Care Corporation (d/b/a The Regional Medical Center at Memphis – The Med) was incorporated on June 15, 1981, with the approval of the Board of County Commissioners of Shelby County, Tennessee (the County). The Med is a broad continuum healthcare provider that operates facilities owned by the County under a long-term lease. The lease arrangement effectively provided for the transfer of title associated with operating fixed assets and the long-term lease (for a nominal amount) of related real property. The lease expires in 2031.

The Med is a component unit of the County as defined by Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. The Med's component unit relationship to the County is principally due to financial accountability and financial benefit or burden as defined in GASB Statement No. 61. The Med is operated by a 13-member board of directors, all of whom are appointed by the Mayor of the County and approved by the County Commission.

The Regional Medical Center at Memphis Foundation (The Med Foundation) is a component unit of The Med principally due to The Med's financial accountability and financial benefit or burden for The Med Foundation as defined in GASB Statement No. 61. The Med Foundation is operated by a board of directors, all of whom are appointed by The Med's board. The Med Foundation is a blended component unit of The Med because it provides services entirely to The Med. The Med Foundation issues separate audited financial statements, which can be obtained by writing to The Regional Medical Center Foundation, 877 Jefferson Avenue, Memphis, Tennessee 38103 or by calling 901-545-7482.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires a management's discussion and analysis (MD&A) section providing an analysis of The Med's overall financial position and results of operations; however, The Med has chosen to omit the MD&A from these accompanying financial statements.

The significant accounting policies used by The Med in preparing and presenting its financial statements follow:

(a) Presentation

The financial statements include the accounts of The Med. All material intercompany accounts and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to estimates and assumptions include the determination of the allowances for contractual adjustments and uncollectible accounts, reserves for professional and general liability

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claims, reserves for employee healthcare claims, net postretirement benefit cost and obligation, and estimated third-party payor settlements.

In addition, laws and regulations governing the Medicare, TennCare, and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(c) *Enterprise Fund Accounting*

The Med's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting.

(d) *Cash Equivalents*

The Med considers investments in highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(e) *Investments and Investment Income*

Investments are carried at fair value, principally based on quoted market prices. Investment income (including realized and unrealized gains and losses) from investments is reported as nonoperating revenue.

(f) *Inventories*

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or replacement market.

(g) *Investments in Joint Ventures*

Investments in joint ventures consist of The Med's equity interests in joint ventures as measured by its ownership interest if The Med has an ongoing financial interest in or ongoing financial responsibility for the joint venture. The investments are initially recorded at cost and are subsequently adjusted for additional contributions, distributions, undistributed earnings and losses, and impairment losses.

(h) *Capital Assets*

Capital assets are recorded at cost, if purchased, or at fair value at the date of donation. Depreciation is provided over the useful life of each class of depreciable asset using the straight-line method. Maintenance and repairs are charged to operations. Major renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses, and changes in net position.

The Med capitalizes interest cost on qualified construction expenditures, net of income earned on related trusted assets, as a component of the cost of related projects. No such interest costs were capitalized in 2013 or 2012.

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All capital assets other than land are depreciated using the following lives:

Land improvements	5 to 25 years
Buildings and improvements	10 to 40 years
Fixed equipment	5 to 25 years
Movable equipment	3 to 20 years
Software	3 years

(i) *Impairment of Capital Assets*

Capital assets are reviewed for impairment when service utility has declined significantly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using the method that best reflects the diminished service utility of the capital asset. No charge related to impairment matters was required during 2013 or 2012.

(j) *Compensated Absences*

The Med's employees accumulate vacation, holiday, and sick leave at varying rates depending upon years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation and holiday time at regular rate of pay up to a designated maximum number of days. Since the employees' vacation and holiday time accumulates and vests, an accrual for this liability is included in accrued expenses and other current liabilities in the accompanying statements of net positions. An accrual is recognized for unused sick leave expected to be paid to employees eligible to retire.

(k) *Net Position*

Net position of The Med is classified into the following components:

- *Net investment in capital assets*, consist of capital assets net of accumulated depreciation.
- *Restricted* include those amounts with limits on their use that are externally imposed (by creditors, grantors, contributors, or the laws and regulations of other governments).
- *Unrestricted* represents remaining amounts that do not meet either of the above definitions.

When The Med has both restricted and unrestricted resources available to finance a particular program, it is The Med's policy to use restricted resources before unrestricted resources.

The Med Foundation historically and to-date does not maintain donor-restricted endowment funds, or any Board-designated endowments. The Med Foundation's Board has interpreted Tennessee's State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. In all material respects, income from The Med Foundation's donor-restricted endowment funds is itself restricted to specific donor-directed purposes, and is, therefore, accounted for within restricted amounts until expended in accordance

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with the donor's wishes. The Med Foundation oversees individual donor-restricted endowment funds to ensure that the fair value of the original gift is preserved.

(l) Statement of Revenues, Expenses, and Changes in Net Position

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services, other than financing costs, are reported as operating revenues and operating expenses. Other transactions, such as investment income, appropriations from Shelby County, gain (loss) on disposal of capital assets, and equity in earnings and impairment losses of joint ventures, are reported as nonoperating revenues and expenses.

(m) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Changes in estimates related to prior cost reporting periods resulted in an increase in net patient service revenue of approximately \$1,552,000 and \$3,992,000 in 2013 and 2012, respectively.

(n) Charity Care

The Med provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because The Med does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

When defining charity care, The Med employs the Federal Poverty Guideline (FPG) to determine the level of discount uninsured patients receive. The level by which assistance is determined is through the scale set by DHHS (Department of Health and Human Services), which includes factors such as residents per household and income. The Med's methodology includes all patients that fall at or below the 150% FPG baseline. The Med does not have a cap to which patients will not qualify for a discount. Additionally, The Med's charity care guidelines provide for an expansive definition of charity care patients, including an upfront discount from standard charges for uninsured patients.

(o) Income Taxes

The Med is a not-for-profit corporation organized by the approval of the Board of County Commissioners of the County and qualifies as a tax-exempt entity under Internal Revenue Code (IRC) Section 501(a) as organizations described in IRC Section 501(c)(3), and therefore, related income is generally not subject to federal or state income taxes, except for tax on income from activities unrelated to its exempt purpose as described in IRC Section 512(a). Thus, no provision for income taxes has been recorded in the accompanying financial statements.

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(p) Appropriations

The County has historically appropriated funds annually to The Med to partially offset the cost of medical care for indigent residents of the County. Appropriations for indigent residents from the County were approximately \$26.8 million for both the years ended June 30, 2013 and 2012. Appropriations from the County are reported as nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position.

(q) Recent Pronouncements

During the year ended June 30, 2013, The Med adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, (Statement No. 63). This new accounting pronouncement requires that amounts representing deferred outflows of resources be reported in a balance sheet in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. Statement No. 63 further requires that the balance sheet report the residual amount as "net position" rather than "net assets." Net position represents the difference between all other elements in a balance sheet and should be displayed in three components – "net investment in capital assets," "restricted," and "unrestricted." The adoption of Statement No. 63 did not have a material impact on The Med's financial statements.

During the year ended June 30, 2013, The Med adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Statement No. 62). The primary objective of the new accounting pronouncement is to directly incorporate the applicable provisions of FASB and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989 into the state and local government accounting and financial reporting standards. Statement No. 62 also eliminates the option provided in GASB Statement No. 20 to apply post-November 30, 1989 FASB pronouncements not in conflict with GASB pronouncements. The adoption of Statement No. 62 did not have a material impact on The Med's financial statements.

During the year ended June 30, 2013, The Med adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – amendments of GASB Statements No. 14 and No. 34* (Statement No. 61). This new accounting pronouncement modifies certain requirements for inclusion of component units in the financial reporting entity. Statement No. 61 requires that financial benefit or burden criteria be met for those entities that were previously included by meeting the fiscal dependency criteria. In addition, for organizations that do not meet the financial accountability criteria for inclusion as component units but should be included because the primary government's management has determined that it would be misleading to exclude them, Statement No. 61 clarifies the manner in which such determination should be made and the types of relationships to be considered. Furthermore, Statement No. 61 clarifies when component units should be blended or presented discretely. The adoption of Statement No. 61 did not have a material impact on the Med's financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement No. 65), was published in March 2012. This new pronouncement establishes accounting and financial

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reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of Statement No. 65 are effective for financial statements for periods beginning after December 15, 2012 (The Med's fiscal year ending June 30, 2014).

(2) Deposits and Investments

The composition of cash and cash equivalents follows:

	<u>2013</u>	<u>2012</u>
Cash	\$ 15,449,393	14,534,478
Money market funds	21,674	4,113,172
	<u>\$ 15,471,067</u>	<u>18,647,650</u>

The Med's and The Med Foundation's bank balances that are considered to be exposed to custodial credit risk at June 30, 2013 are \$15,088,140. Federal deposit insurance is \$250,000 on all noninterest bearing accounts as of June 30, 2013. Federal deposit insurance is unlimited on all noninterest bearing accounts as of June 30, 2012, therefore, there is no custodial credit risk as of June 30, 2012.

Investments and restricted investments include amounts held by both The Med and The Med Foundation.

The composition of investments and restricted investments follows:

	<u>2013</u>	<u>2012</u>
U.S. agencies	\$ 64,876,372	77,644,977
Certificates of deposit	1,132,337	710,315
Corporate bonds	33,593,663	26,054,432
Discount notes	—	29,917
Demand deposit accounts and money market funds	6,192,098	19,052,649
U.S. government funds	696,264	173,931
Common stock	3,510,579	1,806,007
Bond funds and Bond exchange-traded fund	14,327,594	—
Accrued interest	588,658	797,116
	<u>\$ 124,917,565</u>	<u>126,269,344</u>

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At June 30, 2013, The Med and The Med Foundation had investments in debt securities with the following maturities:

	Fair value	Investment and restricted investment maturities (in years)			
		Less than 6 months	6 months to 1 year	1 – 5 years	5+ years
U.S. agencies	\$ 64,876,372	—	—	6,957,190	57,919,182
Corporate bonds	33,593,663	1,440,126	616,649	26,579,958	4,956,930
	<u>\$ 98,470,035</u>	<u>1,440,126</u>	<u>616,649</u>	<u>33,537,148</u>	<u>62,876,112</u>

At June 30, 2012, The Med and The Med Foundation had investments in debt securities with the following maturities:

	Fair value	Investment and restricted investment maturities (in years)			
		Less than 6 months	6 months to 1 year	1 – 5 years	5+ years
U.S. agencies	\$ 77,644,977	1,241,430	51,623	41,544,954	34,806,970
Corporate bonds	26,054,432	454,424	7,522,726	14,719,645	3,357,637
Discount notes	29,917	29,917	—	—	—
	<u>\$ 103,729,326</u>	<u>1,725,771</u>	<u>7,574,349</u>	<u>56,264,599</u>	<u>38,164,607</u>

At June 30, 2013, The Med Foundation had one investment totaling \$696,263 in the SEI Daily Income Trust Government Fund that represented 5% or more of total investments for The Med Foundation. The Med as of June 30, 2013 had one investment totaling \$13,351,894 in iShares Barclays Intermediate Term Corporate Credit Fund that represented more than 5% of total investments. There were no investments that represented 5% or more of total investments as of June 30, 2012.

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The Med and The Med Foundation have separate investment policies that are included below. The summary of investments throughout the financial statements include the combined investment totals of The Med and The Med Foundation.

At June 30, 2013, The Med's and The Med Foundation's corporate bonds, collectively, had the following credit ratings per Standard and Poor's:

<u>Fair value</u>	<u>Credit rating</u>
\$ 302,061	BBB-
2,408,467	BBB
2,820,895	BBB+
14,018,451	A-
9,493,989	A
2,940,469	A+
541,102	AA-
1,068,229	AA+
\$ 33,593,663	

At June 30, 2012, The Med's and The Med Foundation's corporate bonds, collectively, had the following credit ratings per Standard and Poor's:

<u>Fair value</u>	<u>Credit rating</u>
\$ 211,957	BBB-
367,976	BBB
838,849	BBB+
16,800,217	A-
3,696,146	A
3,357,038	A+
782,249	AA+
\$ 26,054,432	

The Med's and The Med Foundation's investments in discount notes at June 30, 2013 and 2012 were not rated.

As of June 30, 2013, The Med's investment strategy, per its investment policy, is to provide liquidity to fund ongoing operating needs and to act as a repository for both the accumulation of cash reserves needed to cushion economic down cycles and to provide cash earmarked for strategic needs.

The portfolio objectives of The Med, listed in order of importance, are as follows:

1. Preserve principal.
2. Maintain sufficient liquidity to meet forecasted cash needs.

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3. Maintain a diversified portfolio in order to minimize credit risk.
4. Maximize yield subject to the above criteria.

The duration of the bond investment portfolio should not exceed 6 years.

The authorized investments are as follows:

1. *Commercial Paper* – Any commercial paper issued by a domestic corporation with a maturity of 270 or less days that carries at least the second highest rating by a recognized investor service, preferably Standard and Poor's and Moody's Investors Service. Commercial paper shall not represent more than 50% of the portfolio.
2. *U.S. Treasury Securities* – U.S. Treasury notes, bills, and bonds. There is no upper limit restriction as to the maximum dollar amount or percentage of the portfolio that may be invested in U.S. Treasury securities.
3. *Bank Obligations* – Any certificate of deposit, time deposit, Eurodollar CD issued by a foreign branch of a U.S. bank, bankers' acceptance, bank note, or letter of credit issued by a (U.S.) bank possessing at least the second highest rating by a recognized investor services, preferably Standard and Poor's and Moody's Investors Service. Bank obligations (excluding repurchase agreements, commercial paper, and investments held by money market and mutual funds) may not represent more than 30% of the portfolio. In addition, brokered CDs may be purchased from institutions, irrespective of the institutions' debt ratings, so long as the obligations are fully backed by the FDIC.
4. *Repurchase Agreements* – Any Repurchase Agreement purchased from one of the top 25 U.S. banks or one of the primary dealers regulated by the Federal Reserve that is at least 102% collateralized by U.S. government obligations. Repurchase Agreements may not represent more than 20% of the portfolio.
5. *Money Market Funds* – Any open-end money market fund regulated by the U.S. government under Investment Company Act Rule 2a-7. Any investment fund regulated by a Registered Investment Advisor under Rule 3c-7. Such fund investment guidelines must state that "the fund will seek to maintain a \$1 per share net asset value." The Med's investment in any one fund may not exceed 30% of the assets of the fund into which it is invested.
6. *United States Government Obligations* – Any obligation issued or backed (federal agencies) by the U.S. government. No more than 25% may be invested in obligations of any one federal agency.
7. *Corporate Bonds* – Obligations of United States and foreign corporations (including trusts and municipalities of the United States) that carry at least the third highest rating by a recognized rating service, preferably Standard & Poor's or Moody's Investors Service. Corporate bonds, held directly and initially qualifying in one of the above categories, which have been downgraded below the third highest rating, may be sold at the discretion of management. Corporate bonds may not represent more than 40% of the portfolio, foreign corporate bonds may not represent more than 20% of the

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portfolio, and corporate bonds in the fourth highest rating category may not represent more than 20% of the portfolio.

8. *Bond Mutual Funds* – Any publicly available investment registered under the Investment Company Act of 1940 as an open-end mutual fund that is managing a portfolio of debt obligations. Each mutual fund should have a minimum of \$2 billion invested and hold at least 100 different debt obligations. Bond mutual funds can only hold the Authorized Investments meeting all the criteria described above. Additionally, bond mutual funds can hold corporate bonds in the fifth and sixth highest ratings category as long as such holdings do not exceed 10% of the portfolio. Corporate bonds, held via bond mutual funds and initially qualifying in one of the above categories, which have been downgraded below the sixth highest rating, may not exceed 2% of the portfolio.
9. *Equity Mutual Funds* – Any publicly available investment registered under the Investment Company Act of 1940 as an open-end mutual fund that is managing a portfolio of equity securities. Each mutual fund should have a minimum of \$2 billion invested and hold at least 100 different equity securities. Such holdings should not represent more than 20% of the portfolio. Equity Mutual Funds can hold equity securities (including common and preferred stocks) of the 1,000 largest corporations in terms of market capitalization and inclusion in the Russell 1000 Index (representing large cap stocks) that are traded on U.S. exchanges reported in the Wall Street Journal.
10. *Debt Buy Back* – Any debt obligation backed directly by Regional Medical Center may be purchased so long as it is purchased at a discount.
11. Notwithstanding the above criteria, direct investments other than mutual funds that meet the following criteria are not permitted: corporations with more than 25% of revenues derived from the manufacture and sale of firearms, ammunition, and ammunition magazines to the general citizenry.

The Finance Committee of the Board of Directors meets periodically to review asset allocation, portfolio performance, and overall adherence to the investment policy guidelines.

As of June 30, 2013, The Med Foundation utilized one investment manager. This manager is required to make investments in adherence to The Med Foundation's current investment policy and objectives.

The Med Foundation follows an investment strategy focused on maximizing total return (i.e., aggregate return from capital appreciation and dividend and interest income) while adhering to certain restrictions designed to promote a conservative portfolio.

Specifically, the primary objective of The Med Foundation investment management strategy is to maintain an investment portfolio designed to generate a high level of current income with above-average stability.

Guidelines for investments and cash equivalents for The Med Foundation follow:

1. The Med Foundation's assets may be invested only in investment grade bonds rated Baa or higher as determined by Moody's Investors Service or by another acceptable rating agency.
2. The overall market-weighted quality rating of the bond portfolio shall be no lower than A.

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3. The Med Foundation's assets may be invested only in commercial paper rated P-2 or higher by Moody's Investors Service or by another acceptable rating agency.
4. The market-weighted maturity of the base portfolio shall be no longer than 10 years.
5. Quality of the equity securities will be governed by the federal Employee Retirement and Income Security Act, the Tennessee guidelines for investing trust funds, and the "prudent man rule."
6. Conservative option strategies may be used, with a goal of increasing the stability of the portfolio.

The Med Foundation limits investments in common stock to 40% of its investment portfolio. The remainder of the portfolio is to be invested in fixed income investments.

Investment income is comprised of the following:

	2013	2012
Dividend and interest income	\$ 3,022,015	1,909,927
Net decrease in the fair value of investments	(2,674,511)	(486,447)
	<u>\$ 347,504</u>	<u>1,423,480</u>

(3) Business and Credit Concentrations

The Med grants credit to patients, substantially all of whom are local area residents. The Med generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, and commercial insurance policies).

The mix of receivables from patients and third-party payors follows, before application of related valuation allowances:

	2013	2012
Commercial insurance	31%	40%
Patients	36	32
Medicaid/TennCare	17	12
Medicare	16	16
	<u>100%</u>	<u>100%</u>

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(4) **Other Receivables**

The composition of other receivables follows:

	<u>2013</u>	<u>2012</u>
Accounts receivable from University of Tennessee Center for Health Services	\$ 1,618,058	1,508,011
Accounts receivable from the County	49,536	84,936
Accounts receivable from the State of Tennessee	5,277,305	4,998,611
Grants receivable	291,099	294,783
Other	2,634,266	1,657,403
	<u>\$ 9,870,264</u>	<u>8,543,744</u>

(5) **Other Current Assets**

The composition of other current assets follows:

	<u>2013</u>	<u>2012</u>
Inventories	\$ 3,857,425	3,320,733
Prepaid expenses	1,117,121	986,011
	<u>\$ 4,974,546</u>	<u>4,306,744</u>

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(6) Capital Assets

Capital assets and related activity consist of the following:

	Balances at June 30, 2012	Additions	Retirements	Transfers	Balances at June 30, 2013
Capital assets not being depreciated:					
Construction in progress	\$ 7,641,128	31,289,335	—	(29,010,649)	9,919,814
Land	108,955	—	—	5,726,371	5,835,326
Total book value of capital assets not being depreciated	7,750,083	31,289,335	—	(23,284,278)	15,755,140
Capital assets being depreciated:					
Land improvements	6,812,481	51,970	—	—	6,864,451
Buildings	65,236,701	—	—	—	65,236,701
Fixed equipment	110,348,027	1,441,911	—	4,185,784	115,975,722
Movable equipment	125,991,913	4,468,458	(21,797)	7,938,927	138,377,501
Software	17,730,009	418,289	(2,826)	11,159,567	29,305,039
Total book value of capital assets being depreciated	326,119,131	6,380,628	(24,623)	23,284,278	355,759,414
Less accumulated depreciation for:					
Land improvements	(5,473,625)	(150,374)	—	—	(5,623,999)
Buildings	(55,773,625)	(804,888)	—	—	(56,578,513)
Fixed equipment	(90,073,720)	(3,152,146)	—	—	(93,225,866)
Movable equipment	(105,150,605)	(6,823,192)	13,623	—	(111,960,174)
Software	(14,286,017)	(2,070,044)	—	—	(16,356,061)
Total accumulated depreciation	(270,757,592)	(13,000,644)	13,623	—	(283,744,613)
Capital assets being depreciated, net	55,361,539	(6,620,016)	(11,000)	23,284,278	72,014,801
Capital assets, net	\$ 63,111,622	24,669,319	(11,000)	—	87,769,941

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	Balances at July 1, 2011	Additions	Retirements	Transfers	Balances at June 30, 2012
Capital assets not being depreciated:					
Construction in progress	\$ 1,297,077	12,478,213	—	(6,134,162)	7,641,128
Land	—	—	—	108,955	108,955
Total book value of capital assets not being depreciated	1,297,077	12,478,213	—	(6,025,207)	7,750,083
Capital assets being depreciated:					
Land improvements	6,167,621	66,566	—	578,294	6,812,481
Buildings	65,236,701	—	—	—	65,236,701
Fixed equipment	107,454,124	1,909,677	(1,982)	986,208	110,348,027
Movable equipment	118,773,840	5,617,206	(141,092)	1,741,959	125,991,913
Software	14,379,245	632,018	—	2,718,746	17,730,009
Total book value of capital assets being depreciated	312,011,531	8,225,467	(143,074)	6,025,207	326,119,131
Less accumulated depreciation for:					
Land improvements	(5,342,806)	(130,819)	—	—	(5,473,625)
Buildings	(54,871,455)	(902,170)	—	—	(55,773,625)
Fixed equipment	(86,752,175)	(3,321,810)	265	—	(90,073,720)
Movable equipment	(98,997,734)	(6,279,705)	126,834	—	(105,150,605)
Software	(13,528,900)	(757,117)	—	—	(14,286,017)
Total accumulated depreciation	(259,493,070)	(11,391,621)	127,099	—	(270,757,592)
Capital assets being depreciated, net	52,518,461	(3,166,154)	(15,975)	6,025,207	55,361,539
Capital assets, net	\$ 53,815,538	9,312,059	(15,975)	—	63,111,622

(7) **Investments in Joint Ventures**

The Med was a 50% owner in Memphis Managed Care Corporation (MMCC), a TennCare managed care organization, with which The Med contracted to provide services to MMCC enrollees. MMCC is subject to certain regulatory minimum capital requirements and, in that respect, The Med had guaranteed capital deficiencies funding for MMCC up to The Med's proportionate ownership interest in MMCC. No accrual for this obligation was required at either June 30, 2013 or 2012. During fiscal 2008, The Med and University of Tennessee Medical Group entered into a contract to sell the assets of MMCC to a publicly held managed care company. The Med received cash distributions of \$277,065 in fiscal 2013 from the final liquidation of the assets of MMCC. A gain of approximately \$277,000 was recognized in 2013 related to the final liquidation of these assets. No cash distributions were made or gains recognized in 2012.

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(8) Accrued Expenses and Other Current Liabilities

The composition of accrued expenses and other current liabilities follows:

	2013	2012
Due to third-party payors	\$ 5,198,000	7,817,000
Compensated absences	7,202,696	6,932,972
Deferred grant revenue	—	46,942
Accrued payroll and withholdings	6,573,249	8,191,931
Accrued employee healthcare claims	1,745,000	1,821,000
Current professional and general liability costs	2,300,000	2,350,000
Other	4,500,000	—
	<u>\$ 27,518,945</u>	<u>27,159,845</u>

(9) Net Patient Service Revenue

The Med has agreements with governmental and other third-party payors that provide for reimbursement to The Med at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

- *Medicare* – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive-determination methodologies. The Med is paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by The Med and audits thereof by the Medicare fiscal intermediary.

The Med's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Med's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through June 30, 2008. Revenue from the Medicare program accounted for approximately 17% and 18% of The Med's net patient service revenue for the years ended June 30, 2013 and 2012, respectively.

- *TennCare* – Under the TennCare program, patients traditionally covered by the State of Tennessee Medicaid program and certain members of the uninsured population enroll in managed care organizations that have contracted with the State of Tennessee to ensure healthcare coverage to their enrollees. The Med contracts with the managed care organizations to receive reimbursement for providing services to these patients. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diem rates. Revenue from the TennCare program accounted

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for approximately 27% and 24% of The Med's net patient service revenue for the years ended June 30, 2013 and 2012, respectively.

The Med has historically received incremental reimbursement in the form of Essential Access payments through its participation in the TennCare Program. Amounts received by The Med under this program were approximately \$66.4 million and \$74.7 million in 2013 and 2012, respectively. These amounts have been recognized as reductions in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net position. There can be no assurance that The Med will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. Any material reduction in such funds has a correspondingly material adverse effect on The Med's operations.

Arkansas Medicaid – Substantially all inpatient and outpatient services rendered to Arkansas Medicaid program beneficiaries are paid under prospective reimbursement methodologies established by the State of Arkansas. Certain other reimbursement items (principally inpatient nursery services and medical education costs) are based upon cost reimbursement methodologies. The Med is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by The Med and audits thereof by the Arkansas Department of Health and Human Services (DHHS). The Med's Arkansas Medicaid cost reports have been audited and settled by the Arkansas DHHS through June 30, 2007. Revenue from the State of Arkansas Medicaid program accounted for approximately 2% and 1% of The Med's net patient service revenue for the years ended June 30, 2013 and 2012, respectively.

The Med has historically received incremental reimbursement in the form of Upper Payment Limit (UPL) and additional appropriation payments through its participation in the State of Arkansas Medicaid program. The net benefit for The Med associated with this program, totaling approximately \$2.3 million and \$2.8 million for the years ended June 30, 2013 and 2012, respectively, has been recognized as a reduction in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net position. There can be no assurance that The Med will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Mississippi Medicaid – Inpatient and outpatient services rendered to Mississippi Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the State of Mississippi. Revenue from the State of Mississippi Medicaid program accounted for approximately 3% of The Med's net patient service revenue for both the years ended June 30, 2013 and 2012.

The Med has historically received incremental reimbursement in the form of Upper Payment Limit (UPL) and additional appropriation payments through its participation in the State of Mississippi Medicaid program. The net benefit for The Med associated with this program, totaling approximately \$4.2 million and \$3.5 million for the years ended June 30, 2013 and 2012, respectively, has been recognized as a reduction in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net position.

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- *Other* – The Med has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The reimbursement methodologies under these agreements include prospectively determined rates per discharge, per diem amounts, and discounts from established charges.

The composition of net patient service revenue follows:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue	\$ 918,361,574	921,201,697
Less provision for contractual and other adjustments	565,394,523	516,648,494
Less provision for bad debts	<u>49,181,321</u>	<u>79,012,130</u>
Net patient service revenue	<u>\$ 303,785,730</u>	<u>325,541,073</u>

The composition of incremental reimbursement from various state agencies for participation in TennCare/Medicaid programs follows:

	<u>2013</u>	<u>2012</u>
TennCare Essential Access	\$ 66,428,367	74,695,475
Arkansas UPL/Disproportionate Share	2,268,466	2,770,773
Mississippi Disproportionate Share	<u>4,231,388</u>	<u>3,531,107</u>
Total payments	<u>\$ 72,928,221</u>	<u>80,997,355</u>

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, The Med must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology. The Med received approximately \$2.9 million and \$3.7 million of incentive payments related to EHR implementation for the years ended June 30, 2013 and 2012, respectively. These amounts are included within net patient service revenue within the statements of revenues, expenses, and change in net position.

(10) Charity Care

The Med maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone, based on established rates, were approximately \$340.7 million and \$297.2 million in 2013 and 2012, respectively. Included in the charges foregone is the upfront discount applied to all uninsured patients of approximately \$198.0 million and \$187.0 million in 2013 and 2012, respectively, as The Med does not pursue collection on these amounts.

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(11) Retirement Plans

(a) Defined Benefit Plan

The Med contributes to the Shelby County Retirement System (the Retirement System), a cost-sharing single-employer defined benefit public employee retirement system (PERS) established by Shelby County, Tennessee. The Retirement System is administered by a board, the majority of whose members are nominated by the Shelby County Mayor, subject to approval by the Shelby County Board of Commissioners. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Shelby County Retirement System, Suite 950, 160 North Main, Memphis, Tennessee 38103 or by calling 901-545-3570.

Shelby County provides office space and certain administrative services at no cost to the Retirement System. All other costs to administer the plan are paid from plan earnings.

Substantially all full-time and permanent part-time employees of Shelby County (including The Med and Shelby County's other component units), other than the Shelby County Board of Education employees, employees who have elected to be covered by Social Security with the exception of The Med employees, employees designated as Comprehensive Employment Training Act employees after July 1, 1979, and certain employees of The Med are required, as a condition of employment, to participate in the Retirement System.

The Retirement System consists of three plans (Plans A, B, and C). In 1990, Plans A and B were merged into one reporting entity, whereby total combined assets of the merged plans are available for payment of benefits to participants of either of the two previously existing plans. In 2005, Plan C was added and merged with Plans A and B for funding purposes. While the plans were merged, the Retirement System has retained the membership criteria of the previous plans, which are as follows:

- Plan C, a contributory cost-sharing multiple-employer defined benefit pension plan for employees who are also eligible for Plan A,
- Plan B, a contributory cost-sharing multiple-employer defined benefit pension plan for employees hired prior to December 1, 1978, and
- Plan A, a contributory cost-sharing multiple-employer defined benefit pension plan for employees hired on or after December 1, 1978, and those employees that elected to transfer to Plan A from Plan B before January 1, 1981. Plan A was noncontributory for all years prior to 2013.

The Shelby County Board of Commissioners establishes the Retirement System's benefit provisions. Once a person becomes a participant, that person will continue to participate as long as he or she is an employee of Shelby County or The Med. The Retirement System provides retirement, as well as survivor and disability defined benefits.

The Retirement System's funding policy for employee contribution requirements is established by the Board of Administration of the Retirement System. The Shelby County Board of Commissioners

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establishes the Retirement System's funding policy for employer contribution requirements. For fiscal years 2013, 2012, and 2011, the employer contribution requirements were based on the actuarially determined contribution rates, which were 12.75%, 12.01%, and 9.21%, respectively.

The actuarially determined contribution rate was calculated using a projected unit credit service pro rata cost method for Plan A, Plan B, and Plan C participants.

For fiscal years 2013, 2012, and 2011, the following contributions were made to the defined benefit plans:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
The Med's contributions:			
Plan A	\$ 360,271	365,157	317,039
Plan B	1,999	1,301	164
Plan C	86,391	108,501	134,580
Employee contributions:			
Plan A	\$ 15,728	8,608	—
Plan B	703	491	89
Plan C	26,524	33,251	48,938

The contributions as a percentage of earned compensation were the same as those for the Retirement System. The Med contributed 100% of its required contributions in 2013, 2012, and 2011.

(b) Defined Contribution Plan

Effective July 1, 1985, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis Retirement Investment Plan, a defined contribution pension plan covering employees 21 years of age and older who have completed one year of service, as defined, and are not participating in any other pension program to which The Med makes contributions. The plan provides for employee contributions of between 2% and 6% of compensation and for equal matching contributions made by The Med. Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest 20% in the employers matching contributions after two years of service, 50% after three years, 75% after four years, and 100% after five years. Forfeitures are returned to The Med to reduce future matching contributions. The defined contribution plan ceased accepting contributions on September 30, 2009; therefore, there were no contributions by The Med or participants for the years ended June 30, 2013 and 2012.

Effective October 1, 2009, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis 403(b) Retirement Plan, a defined contribution pension plan covering employees 21 years of age and older who have completed one year of service. The plan provides for a 50% employer match on employee contributions up to 6% of employee compensation. Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest 20% in the employers matching contributions after two years of service, 50% after three years, 75% after four years, and 100% after five years. Forfeitures remain in the plan for the benefit of

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other participants. The Med contributed \$1.6 million and \$1.5 million to the 403(b) plan for the years ended June 30, 2013 and 2012, respectively. 403(b) plan participants contributed approximately \$3.4 million and \$3.2 million to the 403(b) plan for the years ended June 30, 2013 and 2012, respectively.

Effective December 1, 2010, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis Nonqualified Supplemental Retirement Plan (Supplemental Retirement Plan). The Supplemental Retirement Plan was formed under Section 457(f) of the IRC of 1986, and management believes that it complies with all provisions applicable to a nonqualified deferred compensation plan under IRC Section 409A. Plan participants contributed approximately \$84,000 to the plan for both the years ended June 30, 2013 and 2012.

(12) Postretirement Benefit Plan

Regional Medical Center Healthcare Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan sponsored and administered by The Med. The Plan provides medical and life insurance benefits to eligible retirees and their spouses. The Med's Board of Directors is authorized to establish and amend all provisions. The Med does not issue a publicly available financial report that includes financial statements and required supplementary information for the Plan.

During fiscal year 2010, The Med's Board of Directors approved a plan amendment that eliminated medical coverage for those employees who did not have 15 years of service as of December 31, 2009 and eliminated life insurance coverage for those employees retiring January 1, 2010 or later.

Per GASB Statement No. 45, *Accounting and Financial Reporting Employers for Postemployment Benefits Other Than Pensions*, for financial reporting purposes an actuarial valuation is required at least biennially for postretirement benefit plans with a total membership of 200 or more. The Med's postretirement benefit plan has approximately 531 and 715 members as of the last actuarial valuations of June 30, 2013 and June 30, 2011, respectively.

(a) Funding Policy

The contribution requirements of employees and the Plan are established and may be amended by The Med's Board of Directors. Monthly contributions are required by retirees who are eligible for coverage. The Med pays for costs in excess of required retiree contributions. These contributions are assumed to increase based on future medical plan cost increases. For fiscal 2013 and 2012, The Med contributed approximately \$1,214,000 and \$1,526,000, respectively, net of retiree contributions, to the Plan. Plan members receiving benefits contributed approximately \$335,000 in fiscal 2013 and \$345,000 in fiscal 2012 through their required contributions. The following table summarizes the monthly contribution rates for the year beginning July 1, 2009:

	Retiree	Spouse
Pre-Medicare	\$ 1,512	1,608
Pre-Medicare Eligible	612	1,440

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(b) *Annual OPEB Cost and Net OPEB Obligation*

The Med's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table shows the components of The Med's annual OPEB cost for fiscal 2013 and 2011, the amounts actually contributed to the Plan, and changes in The Med's net OPEB obligation:

	2013	2011
Annual required contributions and annual OPEB cost	\$ 1,296,634	1,148,234
Contributions made	1,296,634	1,171,234
Decrease in net OPEB obligation	—	(23,000)
Net OPEB obligation, beginning of year	912,000	935,000
Net OPEB obligation, end of year	\$ 912,000	912,000

(c) *Three-Year Trend Information*

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
June 30, 2013	\$ 1,296,634	100.0%	\$ 912,000
June 30, 2012	1,535,160	103.9	851,000
June 30, 2011	1,148,234	102	912,000

(d) *Funded Status and Funding Progress – Required Supplementary Information*

As of June 30, 2012, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$20,319,023 resulting in an unfunded actuarial accrued liability (UAAL) of \$20,319,023.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, as presented below as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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(e) *Schedule of Funding Progress – Required Supplementary Information*

Analysis of the Plan's funding status follows:

Actuarial valuation date*	Actuarial value of plan assets	Actuarial accrued liability (AAL)	Plan assets less than AAL	Funded ratio	Covered payroll	AAL as of a percentage of covered payroll
July 1, 2012	\$ —	20,319,023	20,319,023	—	\$ 18,693,833	109.0
July 1, 2011	—	24,469,273	24,469,273	—	20,476,034	120.0
July 1, 2010	—	24,469,273	24,469,273	—%	21,995,253	111.0%

* All inputs for valuation is provided as of beginning of the fiscal year being actuarially valued.

(f) *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 3% investment rate of return, which is a long-term rate of return on general account assets, and an annual inflation rate and annual healthcare cost trend rate of 6.3%, reducing each year until it reaches an annual rate of 3.3% in 2102. The UAAL is being amortized, using a level percentage of pay method, over a 30-year period under the Projected Unit Credit Method.

(13) *Transactions with University of Tennessee Center for Health Services*

The Med contracts with University of Tennessee Center for Health Services (UTCHS) and University of Tennessee Medical Group (UTMG) to provide, among other things, The Med's house staff, professional supervision of certain ancillary departments, and professional care for indigent patients. The Med also provides its facilities as a teaching hospital for UTCHS.

Operating expenses include approximately \$42.1 million in 2013 and \$41.9 million in 2012 for all professional and other services provided by UTCHS/UTMG.

(14) *Risk Management*

The Med has a self-insurance program for professional and general liability risks, both with respect to claims incurred after the effective date of the program and claims incurred but not reported prior to that date. The Med has not acquired any excess coverage for its self-insurance because The Med is afforded sovereign immunity in accordance with applicable statutes. Presently, sovereign immunity limits losses to \$300,000 per claim. The Med has recorded an accrual for self-insurance losses totaling approximately \$7.5 million and \$8.4 million at June 30, 2013 and 2012, respectively.

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Incurring losses identified through The Med's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate The Med's current inventory of reported claims and historical experience, as well as considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries.

The following is a summary of changes in The Med's self-insurance liability for professional and general liability costs for fiscal 2013 and 2012:

	2013	2012
Balance at July 1	\$ 8,368,000	8,900,000
Provision for claims reported and claims incurred but not reported	(333,974)	956,000
Claims paid	(534,026)	(1,488,000)
	<u>7,500,000</u>	<u>8,368,000</u>
Amounts classified as current liabilities	(2,300,000)	(2,350,000)
Balance at June 30	<u>\$ 5,200,000</u>	<u>6,018,000</u>

Like many other businesses, The Med is exposed to various risks of loss related to theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Claims settled through June 30, 2013 have not exceeded this commercial coverage in any of the three preceding years.

The following is a summary of changes in The Med's self-insurance liability for employee health coverage (included in accrued expenses and other current liabilities in the accompanying balance sheets) for fiscal 2013 and 2012:

	2013	2012
Balance at July 1	\$ 1,821,000	1,510,000
Claims reported and claims incurred but not reported	11,818,341	11,910,368
Claims paid	(11,894,341)	(11,599,368)
Balance at June 30	<u>\$ 1,745,000</u>	<u>1,821,000</u>

(15) Commitments

The Med has outstanding service contracts for management services, equipment maintenance, and blood supply services. Estimated future payments under the contracts follow:

2014	\$ 3,785,914
2015	192,960
	<u>\$ 3,978,874</u>

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June 30, 2013 and 2012

Expense under these contracts and other contracts was approximately \$9.2 million and \$9.1 million for the years ended June 30, 2013 and 2012, respectively.

(16) Leases

The Med has entered into noncancelable operating leases for certain buildings and equipment. Rental expense for all operating leases was approximately \$4.9 million and \$4.6 million for the years ended June 30, 2013 and 2012, respectively. The future minimum payments under noncancelable operating leases as of June 30, 2013 follow:

2014	\$ 2,111,155
2015	791,109
2016	200,593
	<u>\$ 3,102,857</u>

(17) Current Economic Environment

In light of the current sluggish recovery of the U.S. economy, management at The Med monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. While The Med was able to achieve certain objectives of importance in the current economic environment, management recognizes that economic conditions may continue to impact The Med in a number of ways, including (but not limited to) uncertainties associated with U.S. financial system reform and rising self-pay patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2010. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant (and potentially unprecedented) capital investment in healthcare information technology (HCIT);
- Continuing volatility in the state and federal government reimbursement programs;
- Lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding the constitutionality of the legislation, exchange reimbursement levels, changes in combined state/federal disproportionate share payments, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system;
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of HCIT and the transition to ICD-10; and
- Significant potential business model changes throughout the healthcare industry, including within the healthcare commercial payor industry.

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June 30, 2013 and 2012

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with changes in appropriations from the County and City of Memphis and others both currently in existence and which may or may not arise in the future, could have a material adverse impact on The Med's financial position and operating results.

Schedule 1

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Combining Schedule – Statements of Net Position

June 30, 2013

	<u>Shelby County Health Care Corporation</u>	<u>The Regional Medical Center at Memphis Foundation</u>	<u>Combined</u>
Assets			
Assets:			
Cash and cash equivalents	\$ 15,266,095	204,972	15,471,067
Investments	118,878,545	2,318,933	121,197,478
Patient accounts receivable, net	45,906,287	—	45,906,287
Other receivables	9,812,264	58,000	9,870,264
Other current assets	4,974,296	250	4,974,546
Restricted investments	—	3,720,087	3,720,087
Capital assets, net	87,769,941	—	87,769,941
Total assets	\$ <u>282,607,428</u>	<u>6,302,242</u>	<u>288,909,670</u>
Liabilities and Net Position			
Liabilities:			
Accounts payable	\$ 12,026,582	15,856	12,042,438
Accrued expenses and other current liabilities	27,518,945	—	27,518,945
Accrued professional and general liability costs	5,200,000	—	5,200,000
Net postemployment benefit obligation	912,000	—	912,000
Total liabilities	<u>45,657,527</u>	<u>15,856</u>	<u>45,673,383</u>
Net position:			
Net investment in capital assets	87,769,941	—	87,769,941
Restricted for:			
Capital assets	—	2,897,689	2,897,689
Indigent care	—	822,398	822,398
Unrestricted	<u>149,179,960</u>	<u>2,566,299</u>	<u>151,746,259</u>
Total net position	236,949,901	6,286,386	243,236,287
Commitments and contingencies			
Total liabilities and net position	\$ <u>282,607,428</u>	<u>6,302,242</u>	<u>288,909,670</u>

See accompanying independent auditors' report.

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Combining Schedule – Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2013

	<u>Shelby County Health Care Corporation</u>	<u>The Regional Medical Center at Memphis Foundation</u>	<u>Combined</u>
Operating revenues:			
Net patient service revenue	\$ 303,785,730	—	303,785,730
Other revenue	16,235,583	1,063,786	17,299,369
Total operating revenues	<u>320,021,313</u>	<u>1,063,786</u>	<u>321,085,099</u>
Operating expenses:			
Salaries and benefits	150,862,502	—	150,862,502
Supplies and services	70,047,247	—	70,047,247
Physician and professional fees	27,904,579	—	27,904,579
Purchased medical services	23,827,404	—	23,827,404
Plant operations	12,348,849	—	12,348,849
Insurance	2,011,533	—	2,011,533
Administrative and general	31,961,705	—	31,961,705
Community services	—	632,390	632,390
Depreciation and amortization	13,000,644	—	13,000,644
Total operating expenses	<u>331,964,463</u>	<u>632,390</u>	<u>332,596,853</u>
Operating (loss) gain	(11,943,150)	431,396	(11,511,754)
Nonoperating revenues (expenses):			
Investment (loss) income	(73,824)	421,328	347,504
Appropriations from Shelby County	26,816,001	—	26,816,001
Other	306,665	—	306,665
Total nonoperating revenues, net	<u>27,048,842</u>	<u>421,328</u>	<u>27,470,170</u>
Increase in net position	15,105,692	852,724	15,958,416
Net position, beginning of year	<u>221,844,209</u>	<u>5,433,662</u>	<u>227,277,871</u>
Net position, end of year	<u>\$ 236,949,901</u>	<u>6,286,386</u>	<u>243,236,287</u>

See accompanying independent auditors' report.

SHELBY COUNTY HEALTH CARE CORPORATION
 (A Component Unit of Shelby County, Tennessee)

Roster of Management Officials and Board Members

June 30, 2013

(Unaudited)

Management Officials

Reginald Coopwood, M.D., President and CEO

Pam Castleman, MSN, Senior Vice President/Chief Nursing Officer

Susan Cooper, RN, MSN, FAAN, Senior Vice President/Chief Integration Officer

Carl Getto, M.D., Executive Vice President/Chief Medical Officer

Tammie Ritchey, CFRE, Vice President of Development/Foundation Executive Director

Robert Sumter, Ph.D., Executive Vice President/COO/CIO

Tish Towns, FACHE, Senior Vice President, External Relations

Rick Wagers, Senior Executive Vice President/CFO

Monica Wharton, Senior Vice President/Chief Legal Counsel

Board Members

Phil Shannon

Keith Norman

Pamela Brown

Brian Ellis

James Freeman, M.D.

Brenda Hardy, M.D.

Scot Lenoir

Scott McCormick

David Popwell

Heidi Shafer

Anthony Tate

John Vergos

Max Ostner

See accompanying independent auditors' report.

TENNESSEE OCCUPATIONAL WAGES



Total all industries
Memphis, TN-MS-AR MSA, Tennessee

Healthcare Practitioners and Technical Occupations

Occupation	Occ. code	Est. empl.	Mean wage	Entry wage	Exp. wage	25th pct	Median wage	75th pct
HEALTHCARE PRACTITIONERS AND TECHNICAL OCCUPATIONS	29-0000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
			N/A	N/A	N/A	N/A	N/A	N/A
Chiropractors	29-1011	70	73,430	53,610	83,330	51,870	55,930	60,000
			35.30	25.80	40.05	24.95	26.90	28.85
Dentists, General	29-1021	N/A	180,240	141,390	199,660	157,710	172,550	>\$145,600
			86.65	68.00	96.00	75.80	82.95	>\$70
Dietitians and Nutritionists	29-1031	220	52,460	39,820	58,780	43,870	51,380	59,310
			25.20	19.15	28.25	21.10	24.70	28.50
Optometrists	29-1041	190	133,740	72,480	164,360	90,200	123,770	148,470
			64.30	34.85	79.00	43.35	59.50	71.40
Pharmacists	29-1051	1,500	115,430	93,900	126,190	106,480	119,930	135,910
			55.50	45.15	60.65	51.20	57.65	65.35
Anesthesiologists	29-1061	N/A	N/A	N/A	N/A	N/A	N/A	N/A
			N/A	N/A	N/A	N/A	N/A	N/A
Family and General Practitioners	29-1062	170	206,940	136,090	242,370	161,420	>\$145,600	>\$145,600
			99.50	65.45	116.50	77.60	>\$70	>\$70
Internists, General	29-1063	N/A	251,360	225,990	>\$145,600	>\$145,600	>\$145,600	>\$145,600
			120.85	108.65	>\$70	>\$70	>\$70	>\$70
Obstetricians and Gynecologists	29-1064	N/A	219,270	139,290	>\$145,600	170,290	>\$145,600	>\$145,600
			105.40	66.95	>\$70	81.85	>\$70	>\$70
Pediatricians, General	29-1065	140	190,570	149,490	211,110	160,520	178,200	>\$145,600
			91.60	71.85	101.50	77.15	85.65	>\$70
Psychiatrists	29-1066	N/A	150,340	100,040	175,490	107,670	134,510	178,850
			72.30	48.10	84.35	51.75	64.65	86.00
Surgeons	29-1067	120	N/A	N/A	N/A	N/A	N/A	N/A
			N/A	N/A	N/A	N/A	N/A	N/A
Physicians and Surgeons, All Other	29-1069	1,150	207,510	121,250	>\$145,600	150,310	>\$145,600	>\$145,600
			99.75	58.30	>\$70	72.25	>\$70	>\$70
Physician Assistants	29-1071	120	92,330	50,940	113,030	55,870	73,530	92,590
			44.40	24.50	54.35	26.85	35.35	44.50
Registered Nurses	29-1111	12,890	65,950	49,030	74,420	52,220	61,050	72,300
			31.70	23.55	35.80	25.10	29.35	34.75
Occupational Therapists	29-1122	370	74,430	56,750	83,270	63,010	74,960	86,840
			35.80	27.30	40.05	30.30	36.05	41.75
Physical Therapists	29-1123	870	85,190	65,010	95,280	71,490	82,640	92,470
			40.95	31.25	45.80	34.35	39.75	44.45

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Occupation	Occ. code	Est. empl.	Mean wage	Entry wage	Exp. wage	25th pct	Median wage	75th pct
Radiation Therapists	29-1124	60	67,840	52,480	75,520	56,970	66,010	74,550
			32.60	25.25	36.30	27.40	31.75	35.85
Recreational Therapists	29-1125	90	44,760	32,410	50,940	34,160	40,190	56,420
			21.50	15.60	24.50	16.40	19.30	27.10
Respiratory Therapists	29-1126	700	48,960	41,240	52,820	42,970	48,890	55,490
			23.55	19.85	25.40	20.65	23.50	26.70
Speech-Language Pathologists	29-1127	460	65,160	47,400	74,050	51,460	62,610	80,070
			31.35	22.80	35.60	24.75	30.10	38.50
Exercise Physiologists	29-1128	50	63,660	36,110	77,430	37,550	67,930	82,990
			30.60	17.35	37.25	18.05	32.65	39.90
Veterinarians	29-1131	190	68,820	46,580	79,950	50,840	63,020	84,030
			33.10	22.40	38.45	24.45	30.30	40.40
Audiologists	29-1181	50	54,240	48,450	57,130	49,880	54,510	59,150
			26.10	23.30	27.45	24.00	26.20	28.45
Health Diagnosing and Treating Practitioners, All Other	29-1199	60	55,790	45,220	61,080	47,250	54,400	60,110
			26.80	21.75	29.35	22.70	26.15	28.90
Medical and Clinical Laboratory Technologists	29-2011	1,540	58,280	45,220	64,810	50,040	57,920	68,020
			28.00	21.75	31.15	24.05	27.85	32.70
Medical and Clinical Laboratory Technicians	29-2012	1,750	37,790	26,410	43,470	29,710	38,740	45,290
			18.15	12.70	20.90	14.30	18.65	21.75
Dental Hygienists	29-2021	620	63,260	44,460	72,660	51,620	62,960	73,810
			30.40	21.40	34.95	24.80	30.25	35.50
Cardiovascular Technologists and Technicians	29-2031	200	43,620	27,620	51,620	30,130	40,170	56,910
			20.95	13.30	24.80	14.50	19.30	27.35



Entry and Experienced wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Department of Labor & Workforce Development, Employment Security Division, Labor Market Information. Publish date May 2012.

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TENNESSEE OCCUPATIONAL WAGES



Total all industries
Memphis, TN-MS-AR MSA, Tennessee

Healthcare Support Occupations

Occupation	Occ. code	Est. empl.	Mean wage	Entry wage	Exp. wage	25th pct	Median wage	75th pct
HEALTHCARE SUPPORT OCCUPATIONS	31-0000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
			N/A	N/A	N/A	N/A	N/A	N/A
Home Health Aides	31-1011	1,540	22,430	16,590	25,350	17,620	20,900	27,100
			10.80	7.95	12.20	8.45	10.05	13.05
Nursing Aides, Orderlies, and Attendants	31-1012	5,370	23,110	18,660	25,330	19,960	22,630	26,330
			11.10	8.95	12.20	9.60	10.90	12.65
Psychiatric Aides	31-1013	480	19,170	16,710	20,390	16,820	18,380	21,060
			9.20	8.05	9.80	8.10	8.85	10.15
Occupational Therapist Assistants	31-2011	60	58,660	44,820	65,580	50,030	62,680	69,910
			28.20	21.55	31.55	24.05	30.15	33.60
Physical Therapist Assistants	31-2021	280	58,680	43,890	66,080	47,420	62,260	69,670
			28.20	21.10	31.75	22.80	29.95	33.50
Physical Therapist Aides	31-2022	180	22,440	16,800	25,260	17,870	20,840	24,990
			10.80	8.10	12.15	8.60	10.00	12.00
Massage Therapists	31-9011	190	33,110	17,500	40,920	19,000	28,340	37,200
			15.90	8.40	19.65	9.15	13.65	17.90
Dental Assistants	31-9091	1,100	34,550	25,970	38,830	27,670	34,660	42,110
			16.60	12.50	18.65	13.30	16.65	20.25
Medical Assistants	31-9092	2,490	28,270	22,540	31,130	24,130	27,390	30,730
			13.60	10.85	14.95	11.60	13.15	14.75
Medical Equipment Preparers	31-9093	N/A	30,170	23,080	33,710	24,730	29,370	34,940
			14.50	11.10	16.20	11.90	14.10	16.80
Medical Transcriptionists	31-9094	240	33,930	26,570	37,610	28,320	33,250	38,030
			16.30	12.75	18.10	13.60	16.00	18.30
Pharmacy Aides	31-9095	170	23,480	18,460	25,980	20,010	23,200	27,460
			11.30	8.90	12.50	9.60	11.15	13.20
Veterinary Assistants and Laboratory Animal Caretakers	31-9096	260	25,570	18,450	29,130	19,810	24,690	30,090
			12.30	8.85	14.00	9.50	11.85	14.45
Healthcare Support Workers, All Other*	31-9799	1,040	30,380	22,190	34,480	23,630	28,170	36,640
			14.60	10.65	16.60	11.35	13.55	17.60



Entry and Experienced wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Department of Labor & Workforce Development, Employment Security Division, Labor Market Information. Publish date May 2012.

SUPPLEMENTAL
#1

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ANDERSON & BAKER

An Association of Attorneys

2021 RICHARD JONES ROAD, SUITE 120
NASHVILLE, TENNESSEE 37215-2874

SUPPLEMENTAL #1

June 25, 2014

8:21 am

ROBERT A. ANDERSON
Direct: 615-383-3332
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E. GRAHAM BAKER, JR.
Direct: 615-370-3380
Facsimile: 615-221-0080

June 25, 2014


Jeff Grimm
Health Services Examiner
Tennessee Health Services & Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Supplemental Information: Certificate of Need Application CN1406-024
Regional One Health Imaging, LLC

Dear Jeff:

Enclosed are three (3) copies of responses to your supplemental questions regarding the referenced Certificate of Need application. If you have any additional questions, please contact me.

Sincerely,


E. Graham Baker, Jr.
/mp

Enclosures as noted

1. Section A, Applicant Profile, Item 4

Discussion of the proposed organizational and business relationships among the entities is noted. Are there any plans being considered to increase membership in the new applicant LLC with ownership in excess of 5% or greater? Please briefly discuss.

Response: There are no plans at present to "increase membership" in the LLC, but the ownership structure of the ODC will give Regional One Health this option in the future. Again, there are no current plans to do so.

2. Section A, Applicant Profile, Item 5

The applicant states that it is considering the possibility of hiring a management entity. However, given the significant start-up responsibilities outlined in the draft agreement, please briefly describe what plans are in place, if any, in obtaining support from the hospital in order to conduct start-up activities such as build-out oversight, insurance contracting, budgeting, etc.

Response: Regional One Health currently operates all of the diagnostic modalities at its site on Jefferson Street in downtown Memphis. As such, it currently has all of the staff and other resources, including experience, required for the startup of this ODC. Our existing diagnostic staff already performs all of the procedures planned for this ODC, and they also provide functions such as insurance contracting, budgeting, etc. American Program Management (APM") is our Project Manager in charge of build-out oversight for the ODC (APM is a very experienced health care facility project manager that is currently overseeing other projects at Regional One Health).

It is also very important to note that the draft agreement is just that: a draft agreement. Since the Applicant has not even made the decision to enter into a management agreement, the draft that is required (by CON instructions) to be submitted may not appropriately address any actual relationship that might develop in the future.

3. Section B, Project Description, Item 1

The executive summary with description of the project is noted.

Please document the waiting time for MRI patients in the service area. Please describe the methodology used in determining the average time patients are waiting for MRI service.

Response: Regional One Health currently has only one MRI unit located at the Regional Medical Center and serving inpatients, emergency room and trauma patients, and outpatients. Since 2011 and continuing to the present, this one MRI unit has operated at 150% of what HSDA defines as optimal "operating efficiency" and 125% of HSDA's definition of the volume "capacity" of one unit.

An internal review of logs and discussions with Regional One Health's Radiology Department schedulers, showed that initial wait times of up to 8 days to get an Outpatient MRI appointment at the Regional Medical Center are not unusual. This includes schedule wait times plus waits for insurance authorizations. In addition, once scheduled, many MRI Outpatients are "bumped" by ER/Trauma patients. If Trauma is extremely busy on a given day, all scheduled outpatient MRIs may get bumped. This may require that patients leave, reschedule for another day, and try again to obtain an MRI scan. This compounding factor of outpatients competing with ER/Trauma patients and inpatients for MRI slots can cause wait times to complete a routine, outpatient MRI scan to balloon to two (2) weeks or more.

We do not know what kind of wait times for MRI are experienced by other patients across the service area, since this data is not shared by other imaging centers. We only know the waits that are experienced by our patients. Nationally, a rule of thumb for good practice and service would be two to four days to schedule a routine MRI, with the wait time largely based on the time required to obtain insurance authorizations.

Please include a brief description of the projected financial performance of the applicant LLC, including measures to be taken to ensure that the proposed ODC will be financially profitable and the expected timeframe for same.

Response: The Applicant, through Regional One Health, conducted an internal analysis of diagnostic procedures (historic and current utilization, anticipated increase in utilization, costs, charges, etc.), coupled with an analysis of outpatient utilization of these procedures. This analysis resulted in the projections provided in the application. The projections result in a financially profitable operation in Years 1 and 2, as reported. Based on this analysis, the Applicant anticipates positive cash flow in years to come.

The applicant states that the actual front end costs to support the project are \$817,350. As such and as a new LLC with no financial operating history, what responsibility will the new LLC have for repayment and what are the general terms of same? How will this arrangement be documented (e.g. promissory note, letter of agreement, etc)?

Response: The Applicant is 100% owned by Regional One Health, as reported in the application. The Owner will make a cash equity contribution to the project. J. Richard Wagers, Jr., Regional One Health's Sr. Executive Vice President and CFO, has furnished a letter attesting that Regional One Health has sufficient assets to implement this project (see *Attachment C.EF.2*).

(note...please see attached original letter from Mr. Wagers...a copy was included in the original filing...this is included at Attachment C.EF.2)

4. Section B, Project Description, Item II.A.

The response indicates that the ODC will occupy approximately 4,587 gross square feet on the first floor of the existing building or 5,275 of leased space after allocation for common areas. Review of the lease documents revealed that the building contains approximately 112,000 total rentable SF. Based on this amount, what percentage of the building is currently occupied and what is the composition of its tenants? In your response, please briefly describe the building. Suggested highlights include - # floors, year built, zoning classification, total # rental suites and list of tenants by medical service/specialty, and a brief description about other businesses or property owners near or adjacent to the proposed ODC.

Response: The existing building was constructed in the mid-90s, has 5 stories, and is currently occupied by office tenants. The current and planned usage of the building complies with existing zoning regulations (Zoned CA with a Planned Development overlay). The new owner is not renewing existing leases as they expire, and plans to convert the property to medical office and other health-related (e.g., ODC) space. The Applicant understands that Regional One Health has an initial lease of about 35,000 GSF. In time, the entire building will be subleased by healthcare entities (e.g., the ODC, physician's offices, etc.). At present, there are no medical tenants in the building. There is a lot of retail (grocery stores, strip-mall, gas stations, etc.) in the area.

The comparison of the applicant's share of the renovation cost (\$249,000 @ \$54.29 per square foot) to the square footage (SF) cost of hospital projects is noted. Although there have not been enough approved CON projects to identify construction costs by quartile for ODC projects, please compare the applicant's cost to the ODC projects in the table below in lieu of the hospital table you have provided on pages 14 and 35 of the application. In your response, it may be helpful to use the total estimated cost of the renovation for purposes of addressing how the applicant's project compares to recently approved ODC projects.

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	\$ 1,235,500	\$ 159.69
CN1103-008	795	\$ 127,500	\$ 160.38
CN1304-014	847	\$ 150,000	\$ 177.10
CN1304-013	2,080	\$ 520,000	\$ 250.00
CN1203-014	5,320	\$ 1,605,150	\$ 301.72

Response: Alecia Craighead at your office agrees with your comment that there have not been enough ODCs to identify average and/or quartile costs. With that said, our estimated project construction cost of \$54.29 is much lower than the costs charted above.

Even when considering the fact that the Landlord will pay for additional Tenant Improvement as part of the lease, the combined (Landlord + Tenant) total renovation cost per GSF is only \$164.29, which is in the mid-range for the other reported project costs listed above.

June 25, 2014

8:21 am

5. Section B, Project Description, Items II.B and II.C and Section C, Need, Item 6

The tables on pages 13, 19 and 34 of the application identify multiple imaging modalities of the proposed ODC. It would be helpful to compare to the utilization of the imaging modalities of the hospital in 2012 and 2013. If any of the modalities are not presently offered at the hospital, please include a brief description of the need to expand those services at the proposed ODC.

Response: Please see replacement pages 13, 19, and 34. The charts have been changed to include the requested information. The new chart is replicated below:

<u>Outpatient Procedure</u>	<u>ODC Year 1</u>	<u>ODC Year 2</u>	<u>Hospital O/P 2012</u>	<u>Hospital O/P 2013</u>
MRI	2,363	2,611	2,544	2,513
CT	1,545	2,237	10,830	11,893
All Other	8,671	10,247	38,525	35,915
Total Volume	12,579	15,095	51,899	50,321

6. Section B, Project Description, Item II.E. 1.a.

The applicant notes that it will lease [a] 1.5 Tesla MRI unit totaling to approximately \$2.1 million. It appears the quote will expire before the application can be heard in September, 2014. Please revise or provide an addendum such that the vendor's quote will be effective on the date of the hearing.

Response: Please see *Supplemental B.II.E.3* with updated expiration date.

In addition, please include a discussion of the most common MRI procedure types that will be offered at the proposed ODC.

Response: A list of the 10 most common (highest volume) MRI procedures by CPT code for Regional One Health was included in the application as *Attachment B.II.A.3*. It is anticipated that the same (or very similar) most common MRI procedures at the ODC will be the same.

That chart shows the 10 most common MRI procedures anticipated are:

- MRA Neck W/O
- MRI Brain W/O & W/
- MRI Joint Lower, LT, W/O
- MRI Joint Lower, RT, W/O
- MRI Joint Upper, RT, W/O
- MRI Pelvis W/O & W/
- MRI Spine Cervical W/O
- MRI Spine Lumbar Spine W/O
- MRI Spine Lumbar Spine W/O & W/
- MRI Spine Thoracic W/O.

7. **Section B, Project Description Item III.A. and Item III.B**

According to the plot plan, the parking appears accessible to patients. Is this an improvement from current parking at the hospital by area residents?

Response: This is a vast improvement in current parking at the hospital. Hospital outpatients have to maneuver traffic in downtown Memphis to arrive at our hospital. Hospital parking is limited, and is also 2 blocks away from the hospital entrance. Once an outpatient arrives at the hospital, he/she has to check in and wait for the particular diagnostic procedure that is required. Due to increased inpatient, ER, and Trauma Center demands on our in-house diagnostic units, outpatient procedures are sometimes delayed. As described in the application, outpatients sometimes will not return for procedures due to this timing/delay problem.

When compared to having the procedure performed at our proposed ODC, travel to/from the site will be easier for outpatients, and there is ample parking at the site. In fact, there are plans to increase the number of parking spots available at the site, over and above what is shown on the existing plot plan.

The names of the streets that border the property are illegible. Please revise by providing a more legible plot plan in larger print.

Response: Please see attached *Replacement Attachment B.III.A.*

Please address the public transportation available to area residents for travel to and from the proposed ODC from their principle residence of location. In your response, please provide an estimate of the percentage of patients that may require public transportation and identify the major bus routes to the facility. If possible, please provide a map showing the routes with drop off/pick-up stops closest to the proposed ODC.

Response: The Applicant is unaware of any manner in which to estimate the percentage of patients that may require public transportation. Patient intake procedures do not include questions about transportation issues. The Applicant can state, however, that patient throughput will be much better at the ODC, as outpatients will have decreased wait times for diagnostic procedures.

Please see *Supplemental B.III.A.1*, which is a two-page attachment showing the MATA Route 57, which goes to Kirby Road.

8. Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging (1.)(a.))

Please provide a response for each item of this standard as noted in the questions that follow:

Item 1(a): Please briefly describe the methodology used to estimate MRI utilization that exceeds the minimum criteria of the standard.

Response: Our projection methodology was, in part, based on a historical growth analysis, but we also incorporated an assessment of suppressed demand.

Specifically, we first sought to establish a baseline of total demand (Actual and Suppressed) for routine outpatient MRI services at Regional One Health. Note that Outpatient volumes reported to HSDA and in JAR-H merge routine outpatient MRIs and emergency/trauma outpatient MRI volumes.

- We first isolated routine outpatient MRIs from emergency/trauma outpatient volumes in order to assess historical growth rates for the types of patients who would be served at the ODC. As shown in the following chart, from 2010 to 2013, routine outpatient MRI procedures grew by 34% -- a compound annual growth rate (CAGR) of 10.5% across this 3-year period.
- We also incorporated the Radiology Department's study of "no show" volumes for outpatient MRI. The "No Show" rate averaged 15% across the past several years. This high rate reflects the growing pressure on the one MRI unit at the Hospital that is serving all of Regional One's patients and is running at 125% of what HSDA defines as maximum capacity. Scheduling waits are often long and high intensity inpatients and emergency/trauma patients needing MRIs frequently "bump" scheduled routine outpatients.
- The following chart presents this initial analysis of Total Demand (Actual and Suppressed) for MRIs by Regional One Health patients.

**Actual Expressed and Suppressed Demand
For Outpatient MRI
at The Regional Medical Center**

	2010	2013	3-Year Total Growth%	Compound Annual Growth Rate (CAGR)
Actual MRI Procedures	1,391	1,865	34.0%	10.5%
Plus: Estimated No-Shows	582	715		
TOTAL Demand for MRIs at Regional One Health System	1,973	2,580		

As shown in the next chart we projected MRI procedure volumes at the proposed ODC as follows:

- Utilizing 2013 as our base year, we assumed that 75% of routine outpatients would be scanned in the future at the proposed ODC at the Kirby Building.
- Further, we project that 75% of Regional One's routine scheduled outpatients who are now "no shows" can be recovered as the result of providing timely service in a convenient, outpatient-friendly location.
- Finally, we assumed that historical growth rates at the Regional Medical Center for routine outpatient MRIs would continue into the future ODC setting.

PROJECTED MRI VOLUMES AT THE KIRBY ODC

Assumptions	10.5% Historical CAGR Continues					
	If 2nd MRI Unit Were Available Now		PROJECTED			
	2013 BASE	Est. 2014	YR1 2015	YR2 2016	YR3 2017	YR4 2018
75% of Hospital Outpatient Utilization is Decanted to Kirby	1,399	1,546	1,708	1,887	2,085	2,304
75% of No Shows are Recovered	536	593	655	724	799	883
Total Projected Demand At Kirby ODC	1,935	2,138	2,363	2,611	2,885	3,188

Item 2: MRI utilization of the proposed ODC appears to be based on the hospital owner's MRI experience at its location at 877 Jefferson Ave in Memphis. As noted in the question for Section C, Need Item 3, HSDA records reflect that Shelby residents accounted for approximately 71% of total hospital MRI procedures in 2012 and 73% of total procedures in 2011. This falls below the 75% threshold for the standard. Please address this discrepancy in further detail.

Response: Actual routine outpatient patient origin percentages for 2013 show that Shelby County accounts for 90% of MRI routine outpatient volume and 90% of all routine outpatient imaging volume at Regional One Health.

The reason for the difference in percentage from what the HSDA is reporting is that the HSDA is showing TOTAL MRI volumes -- these include Inpatient MRI, Emergency/Trauma MRI, and Routine Outpatient MRIs. The fact that the Hospital is Western Tennessee's State-designated Regional Trauma Center, Burn Center, and Neonatal/Perinatal High Risk Maternal-Infant Center accounts for a much larger draw for Inpatients and Emergency/Trauma patients for all imaging modalities. For scheduled, routine outpatient imaging volumes (including MRI), patient draw is

far more localized. We would expect that the draw of the ODC at Kirby would be consistent with the routine outpatient draw.

Please see *Supplemental C.Need.1*.

- Item 4: Please note that MRI utilization should be discussed in the response in lieu of the ODC's hours of operation. Please also note that HSDA Equipment Registry records are the source for MRI provider reports of utilization.

Response: Please see *Replacement Attachment ODC*.

Item 7(c): While the hospital's protocols may apply to the proposed ODC, please describe in more detail what features pertain only to the applicant ODC. A copy of draft emergency protocols, including the plan for emergency patient transfers should be provided, if possible.

Response: The Applicant does not have a copy of draft emergency protocols, as this is a licensure issue with which we will comply if our CON application is approved. Obviously, in case of emergency, we will stabilize the patient and transfer to the nearest tertiary facility. As a controlled subsidiary of Regional One Health, the Applicant will be able to access hospital transfer agreements to other hospitals for emergencies. Therefore, there will be no separate transfer agreements for the Applicant.

Item 7(d): What is the procedure for screening orders for medical necessity by radiologists of the ODC? What is the process for contacting referring physicians to resolve any concerns noted? Please discuss this criterion in more detail.

Response: Once an order is sent to the ODC, a pre-authorization individual will look at the order. If the order has the necessary ICD 9 codes to support the CPT code, then the procedure will be considered medically necessary. If the ICD 9 does not support the CPT code, then the physician office will be contacted to discuss the order and verify the medical necessity of the order with the referring office. If the order needs to be changed, then the referring physician will order the correct examination. If there is any question of the medical necessity, the Radiologist will then review the order and history. If the order or procedure needs further explanation, the Radiologist will contact the referring physician to discuss the medical necessity and the correct procedure to be ordered.

Item 7(e): Department of Health rule for Outpatient Diagnostic Centers 1200-08-35-.04(9) states that "Each Outpatient Diagnostic Center shall have at all times a licensed physician who shall be responsible for the direction and coordination of medical programs." Please identify the name(s) of same for the proposed ODC, affirm that the physician(s) is licensed to practice medicine in Tennessee. If possible, a CV for the physician(s) would be helpful.

Response: Dr. Sridhar "Sri" Shankar is our current medical director of medical imaging. His CV is attached as *Supplemental Specific MRI 7.e*.

Please briefly describe the plan for imaging interpretation services by a licensed Tennessee physician(s). Will this be provided by staff physicians, by contract with radiologists, or some combination of same?

Response: Interpretation of all images at the ODC will be provided by UTMG Radiologists. There will be a Professional Service Agreement between the Radiologist and the ODC.

Item 7(f): Is the hospital's MRI imaging department ACR accredited? Please briefly describe what is included in ACR accreditation, noting whether or not it applies equally, or in part, to the physicians, the facility, the equipment or all the above. If the MRI equipment applies, is the 1.5 Tesla MRI unit that will be acquired ACR accredited? Please clarify.

Response: Regional One Health, and therefore its radiology department, is JCAHO accredited. The Applicant, as a free-standing outpatient diagnostic center, will pursue ACR accreditation for specific modalities. ACR accredited modalities will include MRI, CT, US, and Mammography. Please see *Supplemental Specific MRI 7.f* for a synopsis of ACR accreditation procedures for these modalities.

Item 7(g): A copy of a draft transfer agreement or letter of intent between the applicant and Regional One Health would be helpful for this response. Additionally, the applicant might comment on whether or not any other hospitals located closer to the proposed ODC are being considered as a potential emergency transfer facility. In your response, please affirm that the physician medical director will be an active member of the hospital(s) medical staff.

Response: Obviously, in case of emergency, we will stabilize the patient and transfer to the nearest tertiary facility. As a controlled subsidiary of Regional One Health, the Applicant will be able to access hospital transfer agreements to other hospitals for emergencies. Therefore, there will be no separate transfer agreements for the Applicant. The medical director will be an active member of Regional One Health's medical staff.

9. **Section C, Need, Item 1 (Project Specific Criteria-Outpatient Diagnostic Centers)**

Item 1: It appears that the service area of the hospital is based on patient days. In lieu of same, please describe the service of the proposed ODC with MRI based on patient origin of the hospital's outpatient MRI service line or its outpatient imaging department.

Response: Our projection methodology was, in part, based on a historical growth analysis, but we also incorporated an assessment of suppressed demand.

Specifically, we first sought to establish a baseline of total demand (Actual and Suppressed) for routine outpatient MRI services at Regional One Health. Note that Outpatient volumes reported to HSDA and in JAR-H merge routine outpatient MRIs and emergency/trauma outpatient MRI volumes.

- We first isolated routine outpatient MRIs from emergency/trauma outpatient volumes in order to assess historical growth rates for the types of patients who would be served at the ODC. As shown in the following chart, from 2010 to 2013, routine outpatient MRI procedures grew by 34% -- a compound annual growth rate (CAGR) of 10.5% across this 3-year period.
- We also incorporated the Radiology Department's study of "no show" volumes for outpatient MRI. The "No Show" rate averaged 15% across the past several years. This high rate reflects the growing pressure on the one MRI unit at the Hospital that is serving all of Regional One's patients and is running at 125% of what HSDA defines as maximum capacity. Scheduling waits are often long and high intensity inpatients and emergency/trauma patients needing MRIs frequently "bump" scheduled routine outpatients.
- The following chart presents this initial analysis of Total Demand (Actual and Suppressed) for MRIs by Regional One Health patients.

Actual Expressed and Suppressed Demand
For Outpatient MRI
at The Regional Medical Center

	2010	2013	3-Year Total Growth%	Compound Annual Growth Rate (CAGR)
Actual MRI Procedures	1,391	1,865	34.0%	10.5%
Plus: Estimated No-Shows	582	715		
TOTAL Demand for MRIs at Regional One Health System	1,973	2,580		

As shown in the next chart we projected MRI procedure volumes at the proposed ODC as follows:

- Utilizing 2013 as our base year, we assumed that 75% of routine outpatients would be scanned in the future at the proposed ODC at the Kirby Building.
- Further, we project that 75% of Regional One's routine scheduled outpatients who are now "no shows" can be recovered as the result of providing timely service in a convenient, outpatient-friendly location.
- Finally, we assumed that historical growth rates at the Regional Medical Center for routine outpatient MRIs would continue into the future ODC setting.

PROJECTED MRI VOLUMES AT THE KIRBY ODC

Assumptions	10.5% Historical CAGR Continues					
	If 2nd MRI Unit Were Available Now		PROJECTED			
	2013 BASE	Est. 2014	YR1 2015	YR2 2016	YR3 2017	YR4 2018
75% of Hospital Outpatient Utilization is Decanted to Kirby	1,399	1,546	1,708	1,887	2,085	2,304
75% of No Shows are Recovered	536	593	655	724	799	883
Total Projected Demand At Kirby ODC	1,935	2,138	2,363	2,611	2,885	3,188

Please also provide the requested utilization projected four years into the future using available population figures.

Response: See chart above for these projections.

Item 2: As the applicant may be aware, there is additional MRI capacity being added to the service area based on LeBonheur Children's Hospital, CN1311-042A (outpatient department of hospital), Baptist Memorial Hospital for Women, CN1211-058A, and a pending application -- West Tennessee Imaging, CN1403-008 (ODC with MRI). All 3 of these sites are within 6 miles of the proposed ODC. Based on this and other providers near the applicant, please discuss further why MRI capacity is not adequate or why special circumstances may apply to this project.

Response: The need for additional MRI services is based, in large part, on the need for more services at Regional One Health. Since our existing MRI is operating at a rate that is over capacity (and in excess of the guidelines), we have a need for an additional MRI. The question was whether or not to install a 2nd MRI at Regional One Health. For all of the reasons given in the application, the most important of which was patient convenience, the decision was reached to place this additional MRI in an outpatient setting.

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Utilization of MRIs in other locations and by other providers will not impact our need. In reference to the 3 projects noted above: (1) this facility is 16.8 miles from our proposed ODC, services at our ODC will not be directed at children only, and the Applicant will not provide services to anyone under 14 years of age; (2) services at our ODC will not target primarily women's services; and (3) that project is not for additional services, but is merely "moving" existing services to a new location.

Please see *Supplemental B.II.A.1*. The top chart adds requested mileage information from the various existing MRI units in Shelby County to the site of our proposed ODC. The bottom chart shows the CON-approved MRIs since 2012. Again, please note that the West Tennessee application (scheduled to be heard at the June, 2014 meeting of the HSDA) is not adding an MRI.

Also *Supplemental B.II.A.4* is a two-page chart of Health Care Providers that Utilize MRIs, as of 06/28/2013, which is the latest information from the HSDA website. Physical addresses from this document were utilized to compute approximate mileage differences from our proposed ODC. Again, we utilized Google Maps to estimate mileage.

Item 3(c)(1): Please also briefly describe the responsibilities assigned to the medical director and/or on-site physicians for patient emergencies, such as handling of patient transfers in the event of an emergency.

Response: The Medical Director will be responsible for the following:

- Appropriate staffing of professional services for the ODC.
- Maintenance of optimal image quality for all modalities
- Monitoring patients undergoing examinations
- Provide stabilization of patients in the event of adverse reactions or patient emergencies
- Will arrange for transfer of patients to the nearest hospital if an emergency arises
- Will ascertain that appropriate emergency medical supplies are available and dated appropriately
- Will interact with physicians and patients if there are conflicts that arise or medical issues that arise in the course of interpretation of images
- Conduct appropriate "peer review" by regular, scheduled review of colleagues interpretations

10. Section C, Need, Item 3 (Service Area).

The applicant states that the proposed ODC's primary service area consists of Shelby County on the basis of similarity to the hospital's service area. However, HSDA records reflect that residents of Shelby County averaged approximately 71% of total hospital MRI procedures in 2012 and 73% in 2011. As such, it appears that the MRI service area may differ from the hospital's general outpatient service area based on the difference from the 80% within 20 minute driving time factor noted on page 11 and page 21 of the application. Given your comments on page 11 pertaining to the internal zip code patient analysis, please discuss and clarify in more detail.

Response: Actual routine outpatient patient origin percentages for 2013 show that Shelby County accounts for 90% of MRI routine outpatient volume and 90% of all routine outpatient imaging volume at Regional One Health.

The reason for the difference in percentage from what the HSDA is reporting is that the HSDA is showing TOTAL MRI volumes -- these include Inpatient MRI, Emergency/Trauma MRI, and Routine Outpatient MRIs. The fact that the Hospital is Western Tennessee's State-designated Regional Trauma Center, Burn Center, and Neonatal/Perinatal High Risk Maternal-Infant Center accounts for a much larger draw for Inpatients and Emergency/Trauma patients for all imaging modalities. For scheduled, routine outpatient imaging volumes (including MRI), patient draw is far more localized. We would expect that the draw of the ODC at Kirby would be consistent with the routine outpatient draw.

Please see *Supplemental C.Need.1.*

Discussion of the new applicant ODC's proposed service area (Shelby County) appears to be based on its similarity to the service area of the hospital in terms of patient origin as measured by hospital admissions/discharges. However, review of HSDA records for MRI equipment revealed that Shelby County residents accounted for approximately 1,621 of or 39% of 4,131 total MRI procedures in 2013, 71% of 4,491 total hospital MRI procedures in 2012, and 73% of 3,927 total hospital MRI procedures in 2011.

Response: Actual routine outpatient patient origin percentages for 2013 show that Shelby County accounts for 90% of MRI routine outpatient volume and 90% of all routine outpatient imaging volume at Regional One Health.

The reason for the difference in percentage from what the HSDA is reporting is that the HSDA is showing TOTAL MRI volumes -- these include Inpatient MRI, Emergency/Trauma MRI, and Routine Outpatient MRIs. The fact that the Hospital is Western Tennessee's State-designated Regional Trauma Center, Burn Center, and Neonatal/Perinatal High Risk Maternal-Infant Center accounts for a much larger draw for Inpatients and Emergency/Trauma patients for all imaging modalities. For scheduled, routine outpatient imaging volumes (including MRI), patient draw is far more localized. We would expect that the draw of the ODC at Kirby would be consistent with the routine outpatient draw.

Please see *Supplemental C.Need.1.*

Based on this data and the 17 mile distance between the hospital and the applicant ODC, it may be helpful to have an appreciation of the proposed ODC's service area based on proximity to both the hospital and the proposed ODC. As a suggestion, the applicant may wish to illustrate the hospital's MRI utilization using the following table or a variation of same that using only zip codes :

Patient Location of Residence	MRI procedures of ODC (as a % of total)	MRI procedures of hospital (as a % of total)
Shelby County – zip codes within 5 to 14 mile radius of ODC		
Shelby County – zip codes within 15 plus radius of ODC		
Shelby County –zip codes 15 miles or more from ODC		
Next highest county , etc		
Other States		
Total		

Response: Please see *Supplemental C.Need.1*, which shows the zip codes in Shelby County of those locations from which we anticipate our ODC patients. Note that this chart indicates three "service areas:" a primary service area, secondary service area, and other Shelby County service area. In effect, these are three sub-sets of our Primary Service Area (as defined in the CON application process), which is Shelby County.

11. Section C. (Need) Item 4 (Socio-Demographic Information of the Service Area)

Your response to this item is noted. Please condense information provided in the response & attachments by completing the following table using data from the Department of Health website, Certificate of Need enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau:

Variable	Shelby	Tipton	Svc Area	TN Total
65 + Pop. 2014	108,570	8,042	116,612	981,984
65+ Pop. 2018	124,946	9,367	134,313	1,102,413
Age 65+, % Change	15.1%	16.5%	15.2%	12.3%
Age 65+, % Total	13%	14%	13%	16%
Total Pop. 2014	943,812	63,865	1,007,677	6,588,698
Total Pop. 2018	954,012	67,545	1,021,557	6,833,509
Total Pop. % Change	1.1%	5.8%	1.4%	3.7%
TennCare Enrollees	229,280	11,681	240,961	1,207,604
TennCare Enrollees as a % of Total	24.3%	18.3%	23.9%	18.3%
Median Age	34.0	36.0		38.0
Median Household Income	44,705	51,847		43,314
Population % Below Poverty Level	19.7%	14.0%	19.3%	16.5%

Response: Although not in our primary service area, data for Tipton County was included in the above chart since it was requested by the reviewer. Our primary service area is Shelby County, even though patients from outside Shelby County will be seen if referred. See above chart.

12. Section C. (Need) Item 5.

The table in Attachment B.II.A.2 is noted. It would be helpful to (a) add the number of MRI unit(s) by provider to the table and (b) include estimated distances to the proposed applicant's ODC with MRI. Please also include the names of providers with recently approved but unimplemented certificates of need for MRI units.

Response: It is assumed the reviewer meant *Attachment B.II.A.1* (MRI Utilization), instead of *Attachment B.II.A.2* (CT Utilization). This chart was included in response to the application request for historic utilization of MRI units. Therefore, the utilization given was from the HSDA Medical Equipment registry for 2010 – 2013 (as of 06/28/13). The number of MRI unit(s) in 2012, by provider, is included on this chart. Utilization data for 2012 will not change. *Supplemental B.II.A.1* includes estimated distances to our proposed ODC. These distances are reported by Google Maps. The two approved MRIs referenced earlier are added to this attachment at the bottom of the page (obviously, with no utilization). *Supplemental B.II.A.4* is a printout of the equipment registry addresses from the HSDA, just in case the reviewer wants to know which addresses we utilized for comparing distances.

Per review of the table provided in Attachment B.II.A.2 and HSDA records, please note that the MRI utilization of Shelby County providers was 110,952 total procedures in 2012 (approximately 99% of the 2,880 procedures/year MRI standard). Some updates have been provided to HSDA by area providers. As a reference, please see the table below. Please contact Alecia Craighead, Stat III, HSDA at 615-253-2782 to discuss revision of the table in the manner requested.

MRI Provider Utilization in Shelby County, 2010- 2013

Year	# MRI units	Total MRI Procedures	Average per unit	As a % of 2880 MRI Standard
2013	40	99,600 *		
2012	39	110,952	2,844	99%
2011	38	113,591	2,990	104%
2010	36	109,787	3,050	106%

- *Note: HSDA has not received reports from St Jude and Delta*

Response: The Applicant agrees: with incomplete data, it appears the 2013 Shelby County average utilization per MRI unit cannot be computed.

The need for additional MRI services is based, in large part, on the need for more services at Regional One Health. Since our existing MRI is operating at a rate that is over capacity (and in excess of the guidelines), we have a need for an additional MRI. The question was whether or not to install a 2nd MRI at Regional One Health. For all of the reasons given in the application, the most important of which was patient convenience, the decision was reached to place this additional MRI in an outpatient setting. Utilization of MRIs in other locations and by other providers will not impact our need.

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13. Section C, Need, Item 6

The methodology used to project utilization of the proposed ODC is noted.

However, on pages 31 and 32, the MRI utilization of the hospital (Regional One Health located at 877 Jefferson Ave in Memphis), appears to differ from what has been reported to the HSDA Medical Equipment Registry. As a reference, please note the table below and clarify the discrepancies for the periods indicated.

MRI Utilization, Regional One Health, Memphis, Tennessee

Year	Reported to HSDA	Applicant-page 31	Applicant – page32
2013	4,131	4,766	4,766
2012	4,491	4,491	4,491
2011	3,927	3,927	4,412
2010	3,733	Not noted	3,882

Response: Unfortunately, there were MRI utilization reporting errors at Regional One Health that we discovered while preparing this application. After a fairly exhausting review, we believe that the numbers we reported in the application are correct (3,882, 4,412, 4,491, and 4,766 for years 2010 – 2013). We had a similar situation in the past with our outpatient surgery utilization, where one year was reported incorrectly on our JAR. The Department of Health officials who maintain JAR reports advised it was not important to update “old” JAR reports at that time. Therefore, we have made no effort to correct the JAR. The Applicant will revise any report as necessary to correct any errors we may have caused on the HSDA Equipment Registry Report.

The applicant projects future need/demand for diagnostic services at the same rate that utilization of these services has increased at the hospital. According to HSDA records, the hospital’s total inpatient and outpatient MRI utilization increased by approximately 5.2% between (sic) 2011 to 2013. This rate appears similar to the average rate of increase (6% per year) that is noted in your table on page 32. It also appears to be similar to the hospital’s outpatient MRI rate of increase of 8% from 2,320 procedures in 2011 to 2,513 procedures in 2013 (hospital Joint Annual Report). Assuming an average 8% annual increase, the hospital’s outpatient MRI volumes may reach approximately 2,715 OP procedures in 2014, 2,932 OP procedures in 2015 and 3,166 procedures in 2016 (applicant’s first full year of operations). Based on this utilization, it is unclear how the hospital’s outpatient volumes would provide the additional utilization to support the proposed ODC at the MRI amounts projected for Year 1 and Year 2. Please clarify.

Response: Our projection methodology was, in part, based on a historical growth analysis, but we also incorporated an assessment of suppressed demand.

Specifically, we first sought to establish a baseline of total demand (Actual and Suppressed) for routine outpatient MRI services at Regional One Health. Note that Outpatient volumes reported to HSDA and in JAR-H merge routine outpatient MRIs and emergency/trauma outpatient MRI volumes.

- We first isolated routine outpatient MRIs from emergency/trauma outpatient volumes in order to assess historical growth rates for the types of patients who would be served at the ODC. As shown in the following chart, from 2010 to 2013, routine outpatient MRI procedures grew by 34% -- a compound annual growth rate (CAGR) of 10.5% across this 3-year period.

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- We also incorporated the Radiology Department's study of "no show" volumes for outpatient MRI. The "No Show" rate averaged 15% across the past several years. This high rate reflects the growing pressure on the one MRI unit at the Hospital that is serving all of Regional One's patients and is running at 125% of what HSDA defines as maximum capacity. Scheduling waits are often long and high intensity inpatients and emergency/trauma patients needing MRIs frequently "bump" scheduled routine outpatients.
- The following chart presents this initial analysis of Total Demand (Actual and Suppressed) for MRIs by Regional One Health patients.

**Actual Expressed and Suppressed Demand
For Outpatient MRI
at The Regional Medical Center**

	2010	2013	3-Year Total Growth%	Compound Annual Growth Rate (CAGR)
Actual MRI Procedures	1,391	1,865	34.0%	10.5%
Plus: Estimated No-Shows	582	715		
TOTAL Demand for MRIs at Regional One Health System	1,973	2,580		

As shown in the next chart we projected MRI procedure volumes at the proposed ODC as follows:

- Utilizing 2013 as our base year, we assumed that 75% of routine outpatients would be scanned in the future at the proposed ODC at the Kirby Building.
- Further, we project that 75% of Regional One's routine scheduled outpatients who are now "no shows" can be recovered as the result of providing timely service in a convenient, outpatient-friendly location.
- Finally, we assumed that historical growth rates at the Regional Medical Center for routine outpatient MRIs would continue into the future ODC setting.

PROJECTED MRI VOLUMES AT THE KIRBY ODC

Assumptions			10.5% Historical CAGR Continues			
	2013 BASE	Est. 2014	PROJECTED			
			YR1	YR2	YR3	YR4
			2015	2016	2017	2018
75% of Hospital Outpatient Utilization is Decanted to Kirby	1,399	1,546	1,708	1,887	2,085	2,304
75% of No Shows are Recovered	536	593	655	724	799	883
Total Projected Demand At Kirby ODC	1,935	2,138	2,363	2,611	2,885	3,188

In your response, it may also be helpful to quantify the impact to the hospital's MRI utilization by showing the amounts that are expected to shift to the proposed ODC (e.g. some # or percentage of inpatient and outpatient MRI procedures) and to identify the hospital's estimated MRI utilization in Year 1 and Year 2 of this project. Please complete the table below to help illustrate the MRI utilization trend of the applicant and the hospital:

Provider	2011	2012	2013	2014 (Est)	Year 1	Year 2
Applicant ODC						
Hospital						

Response: Please see following chart:

Provider	2011	2012	2013	2014 (Est)	Year 1	Year 2
Applicant ODC					2,363	2,611
Hospital	4,412	4,491	4,766	4,600	3,365	3,365
Combined ODC & Hospital	4,412	4,491	4,766	4,600	5,728	5,976

Between 2012 and 2013, Inpatient MRIs at the Hospital increased by 16%, from 1,947 in 2012 to 2,235 scans in 2013. For the same period, MRIs referred from the Emergency/Trauma increased by 10% from 587 scans in 2012 to 648 in 2013. Inpatient MRI and Emergency/Trauma MRI

demand has been gradually crowding out routine Outpatient demand. When the proposed MRI unit at the ODC is open, continued growth in inpatient and emergency demand could be accommodated at the Hospital.

Despite these high historical MRI growth rates, for the chart above, we froze the Hospital's combined Inpatient and Emergency/Trauma MRIs at their actual 2013 levels of 2,901 procedures and added 25% of 2013 actual outpatient volume which would be expected to remain at the Hospital. By Year 2, average utilization of the two units is 2,988 MRI procedures which exceeds HSDA's target for operational efficiency.

Inpatients and emergency/trauma patients scanned at the Hospital are of higher intensity than routine outpatients. It takes significantly extra time to scan patients who may be on monitors, have IVs, etc. These patients tie up MRI resources, making them less available to the routine outpatients referred from the clinics. As shown in the previous table, even with the new unit at the ODC to provide for the majority of outpatient volumes, we expect to have very constrained capacity to accommodate growth.

Using the top 10 primary MRI common procedure terminology codes (CPT) illustrated in Attachment B.II.A.3, please add a comparison of the applicant's projected MRI utilization to the hospital's most recent 12-month MRI utilization. Please discuss the rationale for any significant differences by procedure type, such as those that may arise from new sources of referrals from physicians located near the proposed ODC at 6555 Quince Road.

Response: We did not project MRI volumes by CPT code for our ODC. Our anticipated volumes were based on prior utilization and percentage of increase in total volumes. The only CPT illustrations noted were in response to the CON question that requested the most common MRI procedures by CPT code.

We do not expect a substantial difference in the MRI utilization mix of the ODC versus the routine outpatient utilization mix of the Hospital. Our objective is to accommodate excess utilization of our current MRI unit to be more responsive to our current patients and our current referring physicians. We have not considered utilization from new referral sources.

Please complete the following table illustrating the hospital's payor mix in 2013 and the applicant's projected payor mix. Please briefly discuss any similarities/differences projected for the proposed ODC:

Regional One Health's MRI Payor Mix

Payor	Hospital MRI Procedures -2013	Hospital as a % total MRI Procedures	Applicant ODC MRI Procedures -Year 1	Applicant ODC as a % of total MRI Procedures
Medicare	326	18%	591	25%
TennCare/Medicaid	415	22%	591	25%
Commercial Insurance	259	14%	945	40%
Private Pay /Other (includes Shelby County Corrections)	864	46%	236	10%
Total	1,865	100%	2,363	100%
Estimated 2013 Suppressed Demand = Lost MRIs "NO- SHOWS" & "Referred But Never Scheduled"	715			
REVISED TOTAL OP MRI DEMAND of Regional One Health Patients	2,580			

Response: See chart above. Long waits to receive care and "bumping" of routine outpatient MRIs in favor of inpatients and Emergency/Trauma patients at the Hospital is assumed to be a particular deterrent to our referred MRI patients with reimbursement coverage. This has created suppressed demand among Regional One's patients. With Regional One's addition of the second MRI unit, it is projected that at least 75% of what had been MRI suppressed demand will be served at the Kirby ODC. It is projected that the payor mix for MRI at the ODC will differ from that of the hospital in several important ways:

- Medicare percentage is projected to be higher at the ODC compared to at the hospital. In addition to lowering the risks of long scheduling waits and "bumping," the ODC's convenient parking, easy canopied drop-off, and accessible location of imaging within the Kirby building in relation to parking is considered to be a "draw" for our older patients who avoid the Hospital's dark parking garages and long walks to reach the Hospital's Radiology Department.
- TennCare/Medicaid percentage is projected to be roughly the same. The difference is not material and is largely due to rounding in making projections.
- Commercial Insurance percentage is projected to be higher at the ODC largely due to the convenience of location, parking, and the priority given to the scheduling of outpatients and the capability of honoring scheduled routine MRIs.
- Private Pay/Other is projected to be lower at the ODC for several reasons:
 - Shelby County Corrections Department patients accounted for more than 100 outpatient MRIs in 2013. Prisoners will continue to be served at the Hospital which has the appropriate security facilities.

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- While the ODC will be more convenient for patients with cars, the Center may be less accessible for some patients who rely on public transportation. These self-pay patients will continue to be served at the Hospital.
- Certain patients receiving care at the Clinics located in the Hospital may be scheduled for multiple tests and therapies on the same day, making an MRI downtown more convenient.
- The decanting of outpatient volumes from an overloaded MRI unit at the hospital to the new unit at the ODC will make scheduling these patients at the Hospital more convenient, timely, and responsive.

14. Section C. Economic Feasibility, Item 1 (Project Costs Chart)

The chart is noted. The comparison to hospital renovation projects is unclear given the difference between facilities. It would be helpful if the applicant could reference other similar projects of this type. As a suggestion, please contact Alecia Craighead for assistance.

Response: Alecia Craighead of your office agrees with your comment that there have not been enough ODCs to identify average and/or quartile costs. With that said, our estimated project construction cost of \$54.29 is much lower than the costs charted above.

Even when considering the fact that the Landlord will pay for additional Tenant Improvement as part of the lease, the total cost per GSF is only \$164.29, which is in the mid-range for the other reported project costs listed above.

The comments on page 13 about projected equipment & property costs are noted. To complement same for purposes of this item, please briefly describe the methodology used to identify the amounts of the imaging equipment and lease costs over the life of their leases and compare to their Fair Market Value amounts. In your response, please provide documentation of the Fair Market Value from both the equipment vendor and the MOB property owner (or document from real estate appraiser, if necessary).

Response: All of this information was included on page 20 of the application, and is replicated below. The Applicant made the logical assumption that the Purchase Price of the equipment would be the Fair Market Value. Please see following chart:

	Equipment	Purchase Price	Term (Mos)	Monthly Payment	Total Cost
MRI	Optima MR 450w	\$1,069,686.95	84	\$13,100.00	1,100,400
CT	Goldseal Brightspeed Elite 16	\$306,350.99	60	\$5,000.00	300,000
Mammo	Senographe Care	\$280,910.85	60	\$4,500.00	270,000
X-Ray	Goldseal Precision 500D	\$315,000.00	60	\$5,100.00	306,000
U/S	Logiq E9	\$144,000.00	36	\$3,600.00	129,600
	Package Pricing	\$2,115,948.79		\$18,200.00	2,106,000

The expected useful life of the above equipment is 7 to 10 years.

The quote from the equipment vendor is noted. However, the quote is scheduled to expire in July 2014. Please note that the agreements between the parties must be in effect on the date that the application will be heard by HSDA (September 2014 at earliest).

Response: Please see *Supplemental B.II.E.3*.

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Please briefly describe the responsibilities the contractor and the equipment vendor will have in preparing space in the proposed ODC for installation of the MRI equipment in accordance with all applicable safety and building codes.

Response: Architectural programming and preliminary planning have been provided by American Program Management (APM"), an experienced healthcare Program Manager representing Regional One Health. The architect/engineer of record for the project is The Crump Firm of Memphis, Tennessee, an experienced healthcare designer charged with designing the project to comply with all applicable safety and building codes. Information provided by the equipment vendors will be incorporated into the Construction Documents and Specifications. The contractor will be responsible for all construction in accordance with the Construction Documents. Construction Administration services will be provided by the project manager, the architect, the engineer and APM's project manager.

15. Section C, Economic Feasibility, Item 4 (Historical Data Chart)

Given the applicant's relationship to the hospital owner, please provide a historical data chart for the hospital's MRI service and/or imaging department, if possible, for the most recent full 12-month fiscal year period.

Response: Unfortunately, the hospital does not compile information in the format requested. The hospital does not have, in effect, discreet outpatient financials for the imaging department and/or MRI utilization that would be comparable to what is proposed at the ODC. The hospital can track direct expenses for an entire department, such as inpatient, outpatient, and ER. However, the hospital does not track net operating revenue, indirect expenses, or income by department.

16. Section C. (Economic Feasibility) Question 4 (Projected Data Chart)

Please also provide a Projected Data Chart for only the MRI service of the proposed ODC.

Response: Please see attached *Supplemental MRI PDC* (Projected Data Chart for the MRI service for Years 1 and 2). Please note that this chart tracks revenue only, as there is no way to compute the expenses for MRI procedures, only. A comparison of this chart with the total project Projected Data Chart (already submitted) indicates that MRI procedures will account for approximately 54.6% of the gross revenue for this project. Making the assumption that MRI expenses will be the same percentage (and the Applicant does not make this assumption), Net Operating Income Less Capital Expenditures would be 54.6% of the total project's respective numbers, or, approximately \$116,463 and \$24,611 in Years 1 and 2.

How many unduplicated patients and imaging procedures account for the \$131,707 and \$158,049 amounts projected for charity care of the full project in the first and second years of the project (please provide for each service type of the ODC - MRI, CT, Ultrasound and Fluoroscopy)?

Response: We computed charity care by a percentage of revenue (5%). Applying that percentage to the new utilization chart yields the following:

<u>Outpatient Procedure</u>	<u>ODC</u> <u>Year 1</u>	<u>Charity</u> <u>Pts Yr1</u>	<u>ODC</u> <u>Year 2</u>	<u>Charity</u> <u>Pts Yr2</u>
MRI	2,363	119	2,611	131
CT	1,545	78	2,237	112
All Other	8,671	434	10,247	513
Total Volume	12,579	631	15,095	756

Are the costs for imaging interpretation services by qualified physicians reflected in the Projected Data Chart? If so, please identify the amounts & briefly describe the arrangements that may apply. If not, please explain how physicians who provide imaging interpretation services will be compensated.

Response: It is anticipated we will have a Professional Services Agreement with UTMG. They will provide services for 18% of the gross collections minus the cost of billing. Global bills will be sent by the ODC. The percentage of collections allocated through the PSA will be reviewed every year and adjusted based on the technical and professional components of the Medicare fee schedule.

Since the imaging equipment will be leased, what is being depreciated in the chart at the rate of \$100,703 per year (Item D.5)?

Response: This is the anticipated amortization of the \$518,350 equipment that is being purchased (Please see Project Costs Chart, Item A.7).

17. Section C. (Economic Feasibility) Item 5 and Item 6.B

Please note the updated HSDA chart for MRI and CT Gross Charges per Procedure/Treatment by quartiles for years 2010 through 2012 in the following table and compare to the gross charges of MRI and CT services of the proposed ODC:

Gross Charges per Procedure/Treatment
By Quartiles
YEAR = 2012

Equipment Type	1st Quartile	Median	3rd Quartile
CT Scanner	\$873.14	\$1,735.22	\$2,656.97
MRI	\$1,580.35	\$2,106.03	\$3,312.48
<i>Source: Medical Equipment Registry - 12/06/2013</i>			

Response: As reported in the application, there are no historical charge rates for the Applicant. It is projected that average patient charges for Year 1 (considering ALL procedures) will be:

Average Gross Charge/Patient: \$ 555
Average Deduction/Patient \$ 366
Average Net Charge/Patient \$ 188.

It is projected that average patient charges for Year 1 (MRI only) will be:

Average Gross Charge/Patient: \$ 1,794
Average Deduction/Patient \$ 1,185
Average Net Charge/Patient \$ 609.

In addition, it is projected that average patient charges for Year 1 (CT only) will be:

Average Gross Charge/Patient: \$ 750
Average Deduction/Patient \$ 495
Average Net Charge/Patient \$ 255.

18. Section C, Economic Feasibility, Item 10

The alternatives are noted. Based on Regional Health One's participation in the proposed ODC, was any consideration given to sharing MRI services through a shared space arrangement with the hospital or entering into a shared arrangement with another existing MRI provider in Shelby County? Please clarify.

Response: No. The need for additional MRI services is based, in large part, on the need for more services at Regional One Health. Since our existing MRI is operating at a rate that is over capacity (and in excess of the guidelines), we have a need for an additional MRI. The question was whether or not to install a 2nd MRI at Regional One Health. For all of the reasons given in the application, the most important of which was patient convenience, the decision was reached to place this additional MRI in an outpatient setting. Utilization of MRIs in other locations and by other providers will not impact our need.

19. Section C, Contribution to Orderly Development, Item 3.

The staffing estimate of employees noted by the applicant on page 53 is approximately four (4) full time equivalents at an annual total combined base salary of \$240,000. Adding benefits @ 35%, the total annual amount is approximately \$324,000. When compared to an average projected salary and wage expense of approximately \$571,200 in Year 1 increasing by 13.3% to \$647,170 in Year 2, what staff account for the balance of the projected salary cost for the project? Please clarify.

Response: The CON application requests FTE and salary information for "...all employees providing patient care for the project." (emphasis added). Therefore, only those employees (who provide patient care) were included in the salary and FTE charts. Administrative positions (manager, reception, etc.), not asked for in the application, account for the difference.

20. Development Schedule

The schedule has an Agency hearing date of September 24, 2014. In reviewing the schedule further, it is unclear why the applicant would plan on completing the activities noted in items 1 – 6 of the schedule before the HSDA Agency meeting (activities include obtaining a building permit and beginning construction on 9/10/14). Please clarify.

Response: Please see a revised Project Completion Forecast Chart.

Please revise & resubmit the schedule as a replacement page to the application. Note: please also change the hearing date on the schedule from November 2012 to September 2014.

Response: Please see a revised Project Completion Forecast Chart.

According to 68-11-1607(i), "The owners of the following types of equipment shall register such equipment with the health services and development agency: computerized axial tomographers, lithotripters, magnetic resonance imagers, linear accelerators and position emission tomography. The registration shall be in a manner and on forms prescribed by the agency and shall include ownership, location, and the expected useful life of such equipment. The first registration of all such equipment shall be on or before September 30, 2002. Thereafter, registration shall occur within ninety (90) days of acquisition of the equipment. All such equipment shall be filed on an annual inventory survey developed by the agency. The survey shall include, but not be limited to, the identification of the equipment and utilization data according to source of payment. The survey shall be filed no later than thirty (30) days following the end of each state fiscal year. The agency is authorized to impose a penalty not to exceed fifty dollars (\$50.00) for each day the survey is late."

Response: As reported in the application, the Applicant will provide all data contemplated by this question.

In addition, please see attached tear sheet and affidavit for the public notice in the *Commercial Appeal*.

**Regional One Health**

June 11, 2014

Melanie Hill, Executive Director
Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

Re: Regional One Health Imaging, LLC, owned by
Shelby County Health Care Corporation, d/b/a, Regional One Health

Mrs. Hill,

I am the Chief Financial Officer for Shelby County Health Care Corporation. Our latest financials, submitted with our Certificate of Need application, show that we have sufficient cash reserves to fund the \$817,350 indicated cash portion of the project (plus working capital required to absorb start-up losses). While the project totals over \$5.3 million, the balance of the project cost includes eleven years of facility rent and leasing/maintenance costs for medical equipment.

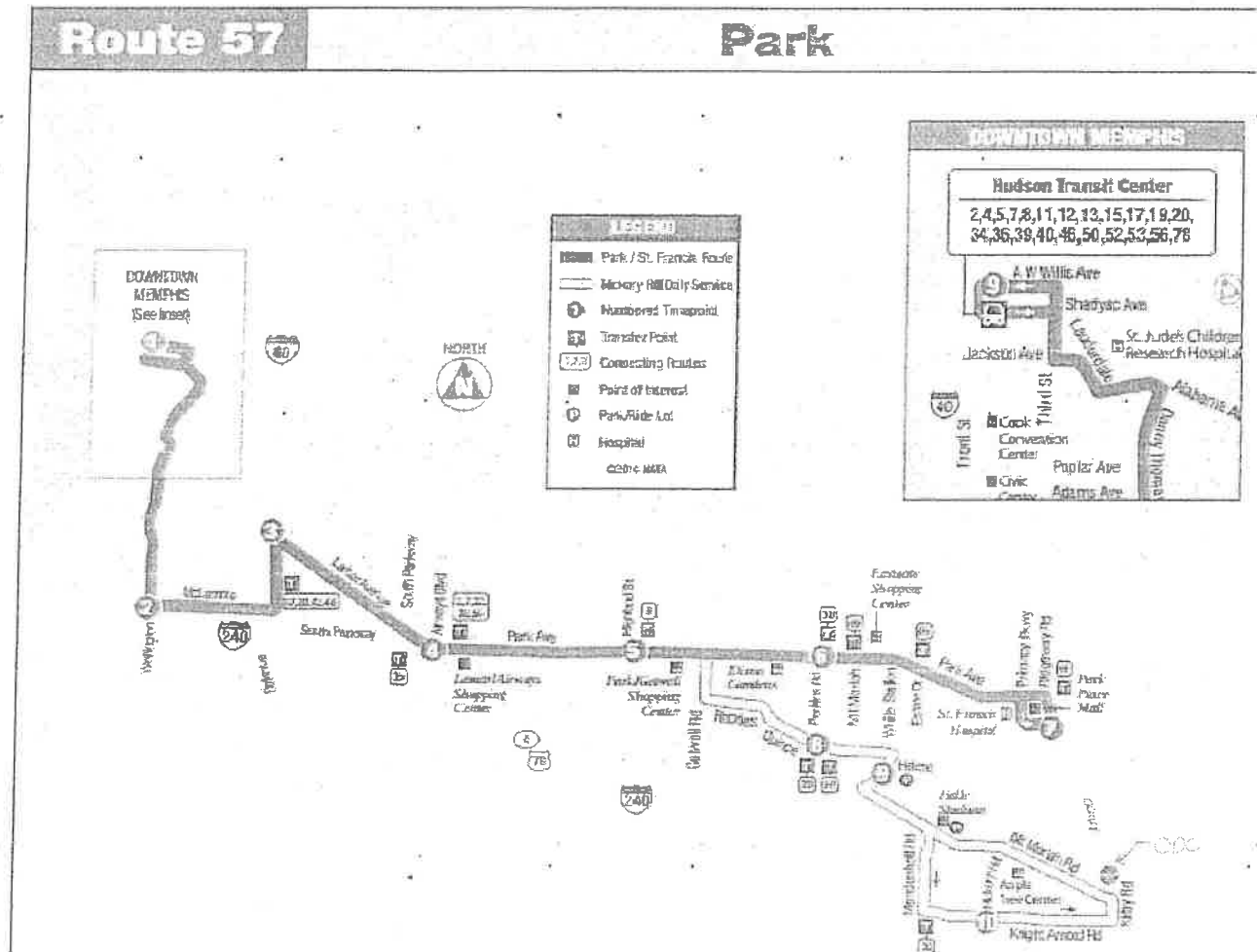
This is to notify you that our cash reserves are both available and dedicated to this project.

Please contact me if you have any questions.

Sincerely,

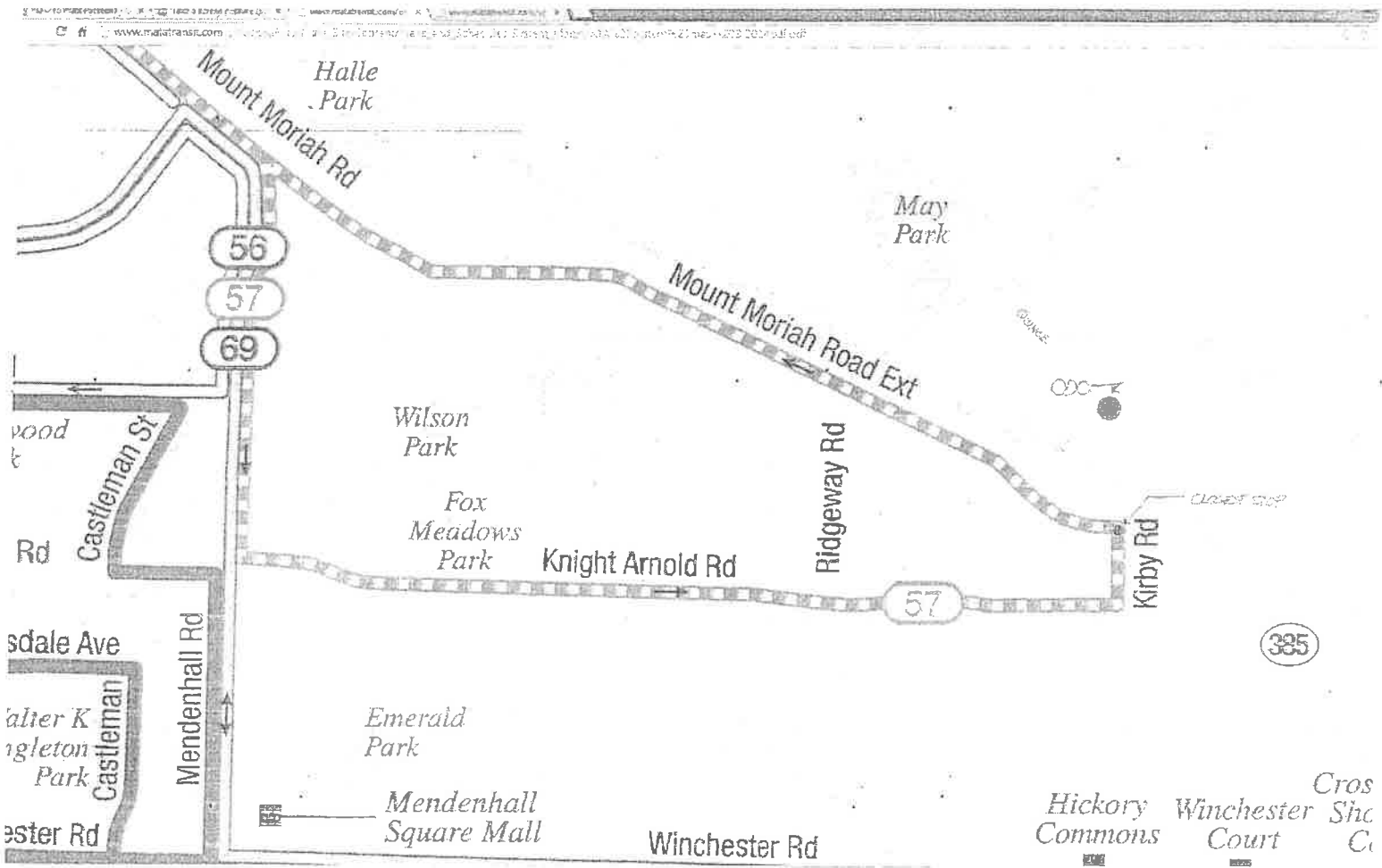
A handwritten signature in dark ink, reading "J. Richard Wagers, Jr.".

J. Richard Wagers, Jr.
Senior Executive Vice President & CFO



June 25, 2014

8:21 am





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Sridhar Shankar, MD



Specialty: [Radiology](#)

Locations:

Memphis Medical Center
Radiology
865 Jefferson, Chandler F150
Memphis, Tennessee 38103-2807
Office: 901-448-6110
Fax: 901-302-2475

Certification(s): Dr. Shankar is board certified by the American Board of Radiology.

Medical Degree: Calcutta University, Bankura Medical College, Bankura, West Bengal, India

Internship: Calcutta University, Bankura Medical College, Bankura, West Bengal, India

Residency: (Radiodiagnosis and Imaging) Postgraduate Institute of Medical Education and Research, Chandigarh, India

Fellowship: (Interventional MRI) Brigham and Women's Hospital, Boston, Massachusetts; (Oncoradiology) Dana-Farber Cancer Institute, Boston, Massachusetts

Special Interest:

- Diagnostic Radiology
- Interventional Radiology
- MRI - Magnetic Resonance Imaging
- Oncoradiology
- Tumor ablation- radiofrequency and cryo ablation
- Ultrasound

Professional Memberships:

- American College of Radiology
- Radiological Society of North America
- Society of Radiologists in Ultrasound

Additional Information:

- Fellows Education Award, Harvard Medical School
- Co-author and author of over 80 medical publications, presentations, lectures, abstracts, and book chapters on radiology
- Peer reviewer for several medical journals
- Extensive teaching and academic/research experience

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OUTPATIENT DIAGNOSTIC CENTERS

1. The need for outpatient diagnostic services shall be determined on a county by county basis (with data presented for contiguous counties for comparative purposes) and should be projected four years into the future using available population figures.

Response: The Applicant's primary service area is Shelby County. Approximately 88.5% of the Applicant's Owner's patients who originate in Tennessee are from Shelby County, according to recent JAR data. For example, Regional One Health provided 68,095 inpatient days to Tennessee residents in 2011, with 60,247 originating from Shelby County. With that said, the Applicant also provided care to patients from 31 total counties in Tennessee in 2011, and patients from at least 10 other states came to the Applicant for care in 2011. In addition to the 68,095 patient days provided to Tennessee residents, 22,677 inpatient days were provided to residents of other states, bringing the total inpatient days to 90,772. While this data emphasizes the "regional" nature of the Applicant's service area, for Tennessee purposes, Shelby County is primary service area of Regional One Health. As a wholly-owned subsidiary, the Applicant's service area will surely mimic that of the hospital.

Our projection methodology was, in part, based on a historical growth analysis, but we also incorporated an assessment of suppressed demand.

Specifically, we first sought to establish a baseline of total demand (Actual and Suppressed) for routine outpatient MRI services at Regional One Health. Note that Outpatient volumes reported to HSDA and in JAR-H merge routine outpatient MRIs and emergency/trauma outpatient MRI volumes.

- We first isolated routine outpatient MRIs from emergency/trauma outpatient volumes in order to assess historical growth rates for the types of patients who would be served at the ODC. As shown in the following chart, from 2010 to 2013, routine outpatient MRI procedures grew by 34% -- a compound annual growth rate (CAGR) of 10.5% across this 3-year period.
- We also incorporated the Radiology Department's study of "no show" volumes for outpatient MRI. The "No Show" rate averaged 15% across the past several years. This high rate reflects the growing pressure on the one MRI unit at the Hospital that is serving all of Regional One's patients and is running at 125% of what HSDA defines as maximum capacity. Scheduling waits are often long and high intensity inpatients and emergency/trauma patients needing MRIs frequently "bump" scheduled routine outpatients.
- The following chart presents this initial analysis of Total Demand (Actual and Suppressed) for MRIs by Regional One Health patients.

**Actual Expressed and Suppressed Demand
 For Outpatient MRI
 at The Regional Medical Center**

	2010	2013	3-Year Total Growth%	Compound Annual Growth Rate (CAGR)
Actual MRI Procedures	1,391	1,865	34.0%	10.5%
Plus: Estimated No-Shows	582	715		
TOTAL Demand for MRIs at Regional One Health System	1,973	2,580		

As shown in the next chart we projected MRI procedure volumes at the proposed ODC as follows:

- Utilizing 2013 as our base year, we assumed that 75% of routine outpatients would be scanned in the future at the proposed ODC at the Kirby Building.
- Further, we project that 75% of Regional One's routine scheduled outpatients who are now "no shows" can be recovered as the result of providing timely service in a convenient, outpatient-friendly location.
- Finally, we assumed that historical growth rates at the Regional Medical Center for routine outpatient MRIs would continue into the future ODC setting.

PROJECTED MRI VOLUMES AT THE KIRBY ODC

Assumptions	10.5% Historical CAGR Continues					
	If 2nd MRI Unit Were Available Now		PROJECTED			
	2013 BASE	Est. 2014	YR1 2015	YR2 2016	YR3 2017	YR4 2018
75% of Hospital Outpatient Utilization is Decanted to Kirby	1,399	1,546	1,708	1,887	2,085	2,304
75% of No Shows are Recovered	536	593	655	724	799	883
Total Projected Demand At Kirby ODC	1,935	2,138	2,363	2,611	2,885	3,188

2. **Approval of additional outpatient diagnostic services will be made only when it is demonstrated that existing services in the applicant's geographical service area are not adequate and/or there are special circumstances that require additional services.**

Response: The Hospital provides all of the stated services at its facility on Jefferson Avenue in downtown Memphis. However, such diagnostic services are over-utilized at the Hospital due to a combination of factors, including inpatient use, emergency patient use, and the fact that the Hospital operates the third most active Trauma Center in the United States. Due to the high demand at the Hospital, the scheduling of diagnostic services – especially elective services – result in long wait times for patients and providers alike. The Applicant projects future need/demand for diagnostic services at the same rate utilization of these services have increased at the Hospital. Therefore, additional diagnostic services are needed, and it was deemed prudent to open up an ODC in a more convenient location for outpatients. The Hospital already has the MOB under lease, and sufficient space is available on the first floor of that building for the ODC.

3. **Any special needs and circumstances:**

- a. **The needs of both medical and outpatient diagnostic facilities and services must be analyzed.**

Response: Please note response to #2 above. In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B*.

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. The approval of this project will only enhance the care delivered to all patients at Regional One Health and through its subsidiary, including minorities and low income patients.

- b. **Other special needs and circumstances, which might be pertinent, must be analyzed.**

Response: Please note response to #2 above. In addition, according to the U.S. Department of Health and Human Services, there are 58 Medically Underserved Area tracts in Shelby County. In addition, the same source shows that there are 113 census tracts that are Health Professional Shortage Areas. See *Attachment C.Need.4.B*.

Further, charts provided in the application show that Shelby County has a high percentage of racial minorities, and both per capita income and average household income for Shelby County compare favorably with both Tennessee and the nation. Regional One Health accepts all patients

Health Care Providers that Utilize MRI's (As of 6/28/2013)

County	Provider Type	Provider	Address	City	State	Zip	Phone Number
Rutherford	PO	Tennessee Orthopaedic Alliance Imaging	1800 Medical Center Parkway, Suite 100	Murfreesboro	TN	37129	615-278-1652
Rutherford	HOSP	TriStar Stonecrest Medical Center	200 Stonecrest Boulevard	Smyrna	TN	37167	615-768-2000
Sevier	HOSP	LeConte Medical Center	742 Middle Creek Road	Sevierville	TN	37862	865-446-8576
Shelby	HOSP	Baptist Memorial Hospital - Collierville	1500 West Poplar Avenue	Collierville	TN	38017	901-861-9000
Shelby	HOSP	Baptist Memorial Hospital - Memphis	6019 Walnut Grove Road	Memphis	TN	38120	901-227-4137
Shelby	HOSP	Baptist Rehabilitation - Germantown	2100 Exeter Road	Germantown	TN	38138	901-757-1350
Shelby	H-Imaging	Baptist Rehabilitation Germantown - Briarcrest MRI	6286 Briarcrest Avenue, Suite 120	Memphis	TN	38120	
Shelby	PO	Campbell Clinic - Union	1211 Union Avenue	Memphis	TN	38120	901-522-7700
Shelby	PO	Campbell Clinic Inc	1400 South Germantown Road	Germantown	TN	38138	901-759-3100
Shelby	HOSP	Delta Medical Center	3000 Getwell Road	Memphis	TN	38118	901-369-8100
Shelby	RPO	Diagnostic Imaging PC - Memphis	6401 Poplar Avenue, Suite 100	Memphis	TN	38119	901-387-2340
Shelby	HOSP	LeBonheur Children's Medical Center	50 North Dunlap Street	Memphis	TN	38103	901-572-3000
Shelby	H-Imaging	Methodist Germantown Diagnostic Center	1377 South Germantown Road	Germantown	TN	38138	
Shelby	HOSP	Methodist Healthcare-Germantown Hospital	7691 Poplar Avenue	Germantown	TN	38138	901-516-6967
Shelby	HOSP	Methodist Healthcare-North Hospital	3960 New Covington Pike	Memphis	TN	38128	901-516-5200
Shelby	HOSP	Methodist Healthcare-South Hospital	1300 Wesley Drive	Memphis	TN	38116	901-516-3080
Shelby	HOSP	Methodist Healthcare-University Hospital	1265 Union Avenue	Memphis	TN	38104	901-516-2600
Shelby	H-Imaging	Methodist Midtown Diagnostic Center	1801 Union Avenue	Memphis	TN	38114	
Shelby	PO	MSK Group PC - New Covington Pike	3980 New Covington Pike, Suite 204	Memphis	TN	38128	901-260-7135
Shelby	PO	MSK Group, PC - Briarcrest	6286 BriarCrest Avenue, Suite 120	Memphis	TN	38120	901-261-2550
Shelby	PO	Neurology Clinic, PC	8000 Centerview Parkway, Suite 300	Cordova	TN	38018	901-255-7155
Shelby	ODC	Outpatient Diagnostic Center of Memphis	5130 Stage Road; P. O. Box 281206	Memphis	TN	38134	901-385-2636

Health Care Providers that Utilize MRI's (As of 6/28/2013)

County	Provider Type	Provider	Address	City	State	Zip	Phone Number
Shelby	H-Imaging	Park Avenue Diagnostic Center	5190 Park Avenue	Memphis	TN	38119	901-767-1015
Shelby	HOSP	Regional Medical Center at Memphis (The Med)	877 Jefferson Avenue	Memphis	TN	38103	901-545-7100
Shelby	PO	Semmes Murphey Clinic (Humphreys Blvd)	6325 Humphreys Blvd.	Memphis	TN	38120	901-522-7700
Shelby	HOSP	St. Francis Hospital	5959 Park Avenue	Memphis	TN	38119-5200	901-765-1807
Shelby	HOSP	St. Francis Hospital - Bartlett	2986 Kate Bond Road	Bartlett	TN	38134	901-820-7050
Shelby	HOSP	St. Jude Children's Research Hospital	262 Danny Thomas Place	Memphis	TN	38105-2794	901-595-3300
Shelby	PO	Wesley Neurology Clinic, P.C.	8000 Centerview Parkway, Suite 101	Cordova	TN	38018	901-753-4093
Shelby	ASTC/ODC	West Clinic, P.C., The	100 North Humphreys Blvd.	Memphis	TN	38120	901-683-0055
Smith	HOSP	Riverview Regional Medical Center	158 Hospital Drive	Carthage	TN	37030-1017	615-735-5164
Sullivan	PO	Appalachian Orthopaedic Associates, PC	1 Medical Park Blvd., Suite 300E	Bristol	TN	37620	423-844-6450
Sullivan	HOSP	Bristol Regional Medical Center	1 Medical Park Boulevard	Bristol	TN	37620	423-844-4200
Sullivan	ODC	Holston Valley Imaging Center, LLC	103 West Stone Drive	Kingsport	TN	37660	423-224-4050
Sullivan	HOSP	Holston Valley Medical Center	130 West Ravine Road	Kingsport	TN	37662	423-224-4000
Sullivan	HOSP	Indian Path Medical Center	2000 Brookside Drive	Kingsport	TN	37660	423-857-7100
Sullivan	ODC	Meadowview Outpatient Diagnostic Center	2033 Meadowview Lane, Suite 100	Kingsport	TN	37660	423-857-2800
Sullivan	H-Imaging	Sapling Grove Imaging, LLC (Wellmont)	240 Medical Park Blvd., Suite 1800	Bristol	TN	37620	423-844-4200
Sullivan	ODC	Sapling Grove Outpatient Diagnostic Center	240 Medical Park Blvd., Suite 1100	Bristol	TN	37620	423-990-2440
Sullivan	HODC	Volunteer Parkway Imaging Center	1230 Volunteer Parkway	Bristol	TN		
Sumner	H-Imaging	Diagnostic Center at Sumner Station	255 Big Station Camp Blvd.	Gallatin	TN	37066	615-328-3350
Sumner	HODC	Outpatient Imaging Center at Hendersonville Medical Center	1160 Forest Retreat Road	Hendersonville	TN	37075	615-338-2000
Sumner	H-Imaging	Portland Diagnostic Center	105 Red Bud Drive	Portland	TN	37148-4918	615-325-1229
Sumner	PO	Southern Sports Medicine Institute, PLLC	570 Hartsville Pike, PO Box 1686	Gallatin	TN	37066	615-452-3320
Sumner	HOSP	Sumner Regional Medical Center	555 Hartsville Pike	Gallatin	TN	37066-1558	615-452-4210
Sumner	HOSP	TriStar Hendersonville Medical Center	355 New Shackle Island Road	Hendersonville	TN	37075	615-338-1400

8:21 am

FY2013 PATIENT ORIGIN FOR OUTPATIENT IMAGING MODALITIES

IMAGING MODALITY	SHELBY COUNTY				All Other Areas	Grand Total
	Primary Service Area	SSA East/Southeast	Other Shelby County	TOTAL SHELBY COUNTY		
MRI	69%	8%	18%	96%	4%	100%
CT Scan	60%	8%	22%	90%	10%	100%
Diagnostic Radiology	59%	8%	22%	89%	11%	100%
Mammography	81%	9%	9%	99%	1%	100%
Medplex Outpat Radiology	55%	8%	27%	90%	10%	100%
Nuclear Medicine	76%	7%	14%	97%	3%	100%
Ultrasound	77%	8%	13%	98%	2%	100%
Grand Total	61%	8%	22%	92%	8%	100%

Zip Codes Include:	PSA	SSA East/SE	Other Shelby
	38103	38115	37501
	38104	38125	37544
	38105	38141	38002
	38106	38017	38004
	38107	38119	38014
	38108	38138	38027
	38109	38139	38029
	38111	38016	38053
	38112	38018	38054
	38114	38028	38055
	38116	38117	38083
	38118	38120	38088
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June 25, 2014**8:21 am**

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REGIONAL ONE HEALTH IMAGING
 MRI REVENUE
 PROJECTED DATA CHART

	Year 1	Year 2
A. Utilization/ Occupancy	2,363	2,611
B. Revenue from Services to Patients		
1. Inpatient Services		
2. Outpatient Services	\$ 4,243,176	\$ 4,684,744
3. Emergency Services		
4. Other Operating Revenue (Specify)		
Gross Operating Revenue	\$ 4,243,176	\$ 4,684,744
C. Deductions from Operating Revenue		
1. Contractual Adjustments	\$ (2,686,036)	\$ (2,965,560)
2. Provision for Charity Care	\$ (72,028)	\$ (79,524)
3. Provision for Bad Debt	\$ (44,553)	\$ (49,190)
Total Deductions	\$ (2,802,618)	\$ (3,094,273)
NET OPERATING REVENUE	\$ 1,440,558	\$ 1,590,471

YEAR 2 ASSUMPTIONS:

Utilization Increase %		10.5%
Gross Charge Rates Pricing		0.0%
Average Gross Patient Revenue Per Patient	\$ 1,794.15	\$ 1,794.15
Average Net Revenue Per Patient	\$ 609.12	\$ 609.12
Contractual Adjustments as a Percent of Gross	65.0%	65.0%
Provision for Charity Care as a % of Net Revenue	5.0%	5.0%
Provision for Bad Debt as a % of Net Revenue	3.0%	3.0%

June 25, 2014**8:21 am****The Commercial Appeal
Affidavit of Publication****STATE OF TENNESSEE
COUNTY OF SHELBY**

Personally appeared before me, Patrick Maddox, a Notary Public, Helen Curl, of MEMPHIS PUBLISHING COMPANY, a corporation, publishers of The Commercial Appeal, morning and Sunday paper, published in Memphis, Tennessee, who makes oath in due form of law, that she is Legal Clerk of the said Memphis Publishing Company, and that the accompanying and hereto attached notice was published in the following editions of The Commercial Appeal to-wit:

June 9, 2014

Helen Curl

Subscribed and sworn to before me this 11th day of June, 2014.

Patrick Maddox Notary Public

My commission expires February 15, 2016



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reporting requirements if you purchase a property

NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601, et seq., and the Rules of the Health Services and Development Agency, that Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119 ("Applicant"), a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner"), owned and managed by itself, is applying for a Certificate of Need for the establishment of an Outpatient Diagnostic Center, including the initiation of MRI services along with CT, Mammography, X-ray/fluoroscopy and Ultrasound services. There are no new licensed beds and no major medical equipment involved with this project, other than what is mentioned above. It is proposed that the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$5,800,000.00, including filing fee.

The anticipated date of filing the application is:
June 13, 2014.

The contact person for this project is E. Graham Baker, Jr., Attorney who may be reached at 2021 Richard Jones Road, Suite 120, Nashville, TN 37215, 615/370-3380.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 350
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

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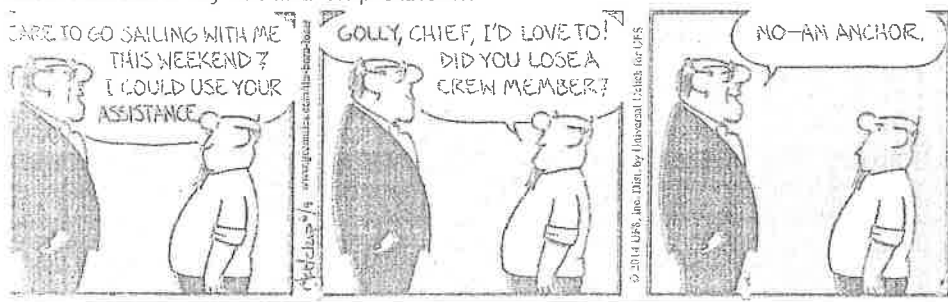
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BRANKSHAFT By Tom Batiuk & Chuck Ayers



BORN LOSER By Art and Chip Sansom



June 25, 2014**8:21 am**AFFIDAVIT

STATE OF TENNESSEE
COUNTY OF DAVIDSON

NAME OF FACILITY: Regional One Health Imaging, LLC (CN1406-024)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.



Signature/Title Attorney at Law

Sworn to and subscribed before me, a Notary Public, this 25th day of June, 2014;
witness my hand at office in the County of Davidson, State of Tennessee.



NOTARY PUBLIC

My Commission expires July 3, 2017



SUPPLEMENTAL
#2

206
ANDERSON & BAKER

An Association of Attorneys

2021 RICHARD JONES ROAD, SUITE 120
NASHVILLE, TENNESSEE 37215-2874

SUPPLEMENTAL #2

June 30, 2014

9:30 am

ROBERT A. ANDERSON

Direct: 615-383-3332

Facsimile: 615-383-3480

E. GRAHAM BAKER, JR.

Direct: 615-370-3380

Facsimile: 615-221-0080

June 27, 2014

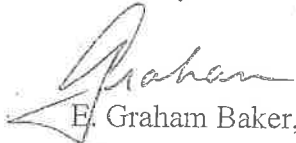
Jeff Grimm
Health Services Examiner
Tennessee Health Services & Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Supplemental Information: Certificate of Need Application CN1406-024
Regional One Health Imaging, LLC

Dear Jeff:

Enclosed are three (3) copies of responses to your second supplemental questions regarding the referenced Certificate of Need application. If you have any additional questions, please contact me.

Sincerely,


E. Graham Baker, Jr.
/np

Enclosures as noted

1. Section B, Project Description, Item 1

The letter, dated June 11, 2014 from Mr. Wagers, Jr. was noted in the attachments to the application and in the attachment to your 6/25/14 supplemental response. To the question regarding the applicant's potential responsibility for repayment (and the general terms of same) you have replied that the owner will make a cash equity contribution to the project. Please provide a brief description of this arrangement such that the applicant's financial obligations for repayment from operating revenues of the proposed ODC are understood.

Response: By definition, a cash equity contribution is just that: a contribution. Cash equity contributions are not loans, and they do not have to be repaid. Therefore, there are no financial obligations for "repayment" by the Applicant to its parent owner.

2. Section B, Project Description, Item II.A.

The response is noted. With respect to the requested comparison of the applicant's estimated cost to renovate space for the proposed ODC, please provide replacement pages to the application (e.g. pages 14 and 35) using the table below that was provided in the supplemental.

CON Project #	Renovation Square Foot	Renovation Construction Cost	Cost Per Square Foot
CN1110-039	7,737	\$1,235,500	\$159.69
CN1103-008	795	\$127,500	\$160.38
CN1304-014	847	\$150,000	\$177.10
CN1304-013	2,080	\$520,000	\$250.00
CN1203-014	5,320	\$1,605,150	\$301.72

The response citing a combined (landlord + tenant) total estimated cost of \$164.29 per GSF is noted. It appears that the estimated combined cost to renovate the space for the proposed ODC amounts to approximately $\$164.29 \times 4,587\text{GSF} = \$753,598$. Of this amount, the landlord and applicant's share are as follows:

Landlord = \$504,570 (per \$110.00/SF Improvement Allowance noted in lease)
Applicant = \$249,000 (as noted in Project Cost Chart)
Total \$753,570

As a result, it appears that the applicant's share amounts to approximately 33% of the total estimated renovation cost of the proposed ODC. Is this an accurate assessment of the arrangement between the applicant and the parties? If so, what documentation is provided in the sublease that confirms this arrangement, including the applicant's participation in the planning & conduct/oversight of the leasehold improvements for the proposed ODC?

Response: Yes, the Improvement Allowance information previously reported by the Applicant and noted above is correct. The original lease provides for Improvement Allowances of up to \$110.00/SF for new tenants (page 2 of *Attachment A.6*), and the sublease states that terms and conditions of the sublease shall be in accordance with the terms and conditions "...as are contained in the Lease..." (*Attachment A.6.1*). The Applicant is legally exercising that lease provision. Tenants always participate in the planning/conduct/oversight of leasehold improvements, and this instance is no exception.

Also, please see replacement pages 14, 15, and 35 with the above chart.

3. Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging (1.)(a.))

The responses requested for the MRI Specific Criteria in the application (pages 16 -28 of the attachment) are noted.

For Item 1(a) on page 20: It appears that projected YR3 MRI utilization will exceed the 2,880 standard based on the response provided for question 9 of the ODC specific criteria. That response identified MRI utilization four (4) years into the future as follows: YR 1 = 2,363; YR 2=2,611; YR3= 2,885 and YR4=3,188.

Please confirm by revising the response on page 20 of the MRI specific criteria to reflect utilization for YR3 & YR4 of the project.

For Item 4 on page 22: clarification of the original response provided in the application was requested for Item 4 of the MRI specific criteria, "Need Standard for Non-Specialty MRI Units" (the response on page 22 only identified the hours of operation of the proposed ODC). The response to this item of the MRI specific criteria requires that the applicant address the need for an additional MRI unit in Shelby County based on a combined average utilization of existing MRI providers at 2,880 procedures per unit for the most recent 12- month period using information from the HSDA Medical Equipment Registry.

It appears that the applicant provided the utilization for the ODC specific criteria in lieu of the MRI specific criteria. Please revise Item 4 of the MRI specific criteria & provide a replacement page R-22 with the information requested.

Response: Please see replacement pages 20 and 22 of the MRI Specific Criteria.

4. Section C, Need, Item 1 (Project Specific Criteria-Outpatient Diagnostic Centers)

Item 2: The response is noted. Please note that the MRI utilization in 2012 for St Jude in the table attached as Supplemental B.II.A.1 has been updated from 6,241 procedures to 8,737 procedures. The resulting total combined MRI utilization of Shelby County providers is 110,952. *Note this applies to the previous clarification requested for Section C, Need, Item 5. The table below was provided as a reference:*

MRI Provider Utilization in Shelby County, 2010- 2013

Year	# MRI units	Total MRI Procedures	Average per unit	As a % of 2880 MRI Standard
2013	40	99,600 *		
2012	39	110,952	2,844	99%
2011	38	113,591	2,990	104%
2010	36	109,787	3,050	106%

- *Note: HSDA has not received reports from St Jude and Delta*

Response: The 2012 data above shows that existing MRI units are operating at approximately 99% of the 2,880 standard. However, two units (LeBonheur and St. Jude) are specialty units, and if those units are taken out of consideration, the percentage of MRI Standard would increase to 2,892 procedures per unit (Note: LeBonheur's units average only 1,786 per unit, and St. Jude's units average only 2,185 per unit. Therefore, deleting those two amounts and 2 units would equal 106,981 procedures and 37 MRIs, resulting in an average utilization of 2,892 per unit).

5. Section C, Need, Item 3 and Item 4 (Service Area)

Item 3: The attachment contains zip codes of Shelby County residents of the hospital's MRI service in 2013. It appears that these residents accounted for 96% of the hospital's MRI utilization during the period. Based on the hospital's "outpatient MRI draw" discussed on pages 8 and 9 of the 6/25/14 supplemental response, it appears that Shelby County residents may be expected to comprise 90% or more of the caseload of the proposed ODC. Is that a reasonable assessment? Please confirm.

Item 4: the population & other demographics for the ODC's proposed service area of Shelby County are noted. Please disregard the column included in the table for Tipton County as it is not relevant to your project. This will impact the column labeled Service Area. Please delete both of these columns and provide a revised table. I apologize for any inconvenience my error may have created.

Response: Yes. The Applicant anticipates that Shelby County residents will comprise approximately 90% of the imaging caseload of the proposed ODC.

Shelby County is the Service Area. Another chart, deleting Tipton County, is provided below:

Variable	Shelby	Svc. Area	TN Total
65 + Pop. 2014	108,570	108,570	981,984
65+ Pop. 2018	124,946	124,946	1,102,413
Age 65+, % Change	15.1%	15.1%	12.3%
Age 65+, % Total	13%	13%	16%
Total Pop. 2014	943,812	943,812	6,588,698
Total Pop. 2018	954,012	954,012	6,833,509
Total Pop. % Change	1.1%	1.1%	3.7%
TennCare Enrollees	229,280	229,280	1,207,604
TennCare Enrollees as a % of Total	24.3%	24.3%	18.3%
Median Age	34.0	34.0	38.0
Median Household Income	44,705	44,705	43,314
Population % Below Poverty Level	19.7%	19.7%	16.5%

6. Section C, Need, Item 6

The explanation of the differences in the MRI utilization reported to the HSDA Medical Equipment Registry by the hospital is noted. The applicant confirmed that the information provided on page 32 of the application is the hospital's correct MRI utilization from 2010 - 2013. The revised table below identifies the discrepancies noted in red font. Based on your response, a hospital representative should provide a corrected written report to Alecia Craighead, Stat III, HSDA. Please provide a copy of same with your response to this item. As a result of your clarification, please also revise the utilization for CY2011 on page 31 of the application.

MRI Utilization, Regional One Health, Memphis, Tennessee

Year	Reported to HSDA	Applicant-page 31	Applicant – page32
2013	4,131	4,766	4,766
2012	4,491	4,491	4,491
2011	3,927	3,927	4,412
2010	3,733	Not noted	3,882

The requested table illustrating the hospital's payor mix in 2013 and the applicant's projected payor mix in Year 1 of the project is noted. It appears that the 1,865 hospital MRI procedures in 2013 applies (sic) to outpatient utilization as noted in the table on page 19 of your 6/25/14 supplemental response. Please confirm.

Response: It is important to note that MRI utilization data supplied by hospitals to the HSDA Equipment Registry is based on Calendar Years, and data supplied to JARs are Fiscal Years. Therefore, the numbers will never be the same.

The Calendar Year MRI procedure numbers reported to the HSDA (Equipment Registry) in the above chart are correct. But those are Calendar Year numbers. As such, there are no discrepancies to address.

The issue is what was reported in the JARs, as compared to what actually happened during those fiscal years. The Applicant has already stated that the JAR information for 2012 was incorrect (correct number is 4,491, as reported in the application). According to the Division of Health Statistics, corrections to prior years' JARs are not a priority. Actual fiscal year MRI procedures are correctly reported in the last column of the above chart, and these numbers will not match the calendar year numbers reported to the HSDA Equipment Registry.

Please see replacement page 31 of the application.

The Applicant confirms that the referenced MRI payor mix table applies to 2013 outpatient utilization.

7. Section C. Economic Feasibility, Item 1 (Project Costs Chart)

The response is noted. The comparison of equipment lease cost to purchase price (fair market value) was noted on pages 11, 13, 20 & Attachment B.II.E.1 of the application. The lease cost and fair market value of the property were identified in the comments on pages 11 and 13 of the application. However, written documentation of the \$2,115,949 fair market value of the existing 5-story building was not included in the application. Please provide this from the MOB property owner or other appropriate party such as a property appraiser.

Response: Please note pp. 6, 11, 13 and 36 of the CON Application. The FMV of the space being leased by the ODC is \$1,141,532.50 (not \$2,115,949 as noted above). Please see *Supplemental C.EF.1.a*, which is a letter stating the FMV of the leased space in the MOB.

Just in case the reviewer was concerned about the fair market value of the leased equipment, leased equipment has a fair market value of \$2,115,949, which is the total purchase price (which is FMV) of the leased equipment (see both *Attachment B.II.E.3* and *Supplemental B.II.E.3*). Courts have long held that willing buyer/willing seller purchase prices constitute fair market value.

8. **Section C. Economic Feasibility, Item 4 (Projected Data Chart)**

The table on page 27 of the 6/25/14 supplemental response also appears to confirm that the unit of measure for utilization in the Projected Data Chart should be total outpatient procedures in lieu of the patient days reflected on page 41 of the application.

The applicant identifies charity care for 631 unduplicated patients in Year 1 and 756 patients in Year 2. Using these amounts and the estimated gross charge of \$555 per patient (page 43 of application), it appears that the contractual amounts for charity patients may be understated in the Projected Data Chart. For example, the amount for Year 1 may be \$350,205 in lieu of \$131,707 identified in item C.2 of the chart.

Please review these two items for revision and provide a replacement page R-41 with the corrected amounts, as appropriate.

Response: Please see a replacement page 41 of the application with the correct terminology.

The financing model we utilized calculated charity care as 5% of Net Contracted Revenue, not as a percentage of Gross Revenue.

June 30, 2014 EF.1.a

9:30 am

June 27, 2014

Melanie Hill, Executive Director
Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

Re: Fair Market Value (FMV) of Leased Space

Mrs. Hill,

We understand that Shelby County Health Care Corporation, under the terms of its lease, intends to sublease 5,275 gross square feet of occupied space to Regional One Imaging, LLC.

The purpose of this letter is to confirm the estimated FMV of this space is \$1,151,532.50.

Please contact me if you have any questions.

Sincerely,



Bret L. Perisho

Executive Vice President
Regional One RH MOB 1 SPE, LLC
6555 Quince Road
Memphis, TN 38114

June 30, 2014**9:30 am****AFFIDAVIT**

STATE OF TENNESSEE
COUNTY OF DAVIDSON

NAME OF FACILITY: Regional One Health Imaging, LLC (CN1406-024)

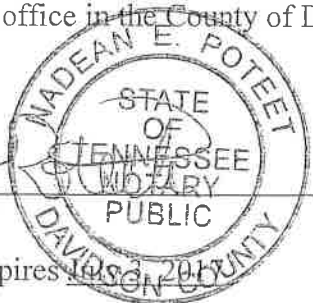
I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.

 Attorney at Law
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 27th day of June, 2014; witness my hand at office in the County of Davidson, State of Tennessee.


NOTARY PUBLIC

My Commission expires 10/31/2017





06/11/2014 1:58 PM

LETTER OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Commercial Appeal which is a newspaper of general
(Name of Newspaper)

circulation in Shelby and surrounding Counties, Tennessee on or before June 09, 2014 for one day.
(County) (Month / day) (Year)

=====

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601, et seq., and the Rules of the Health Services and Development Agency, that Regional One Health Imaging, LLC, 6555 Quince Road, Memphis (Shelby County), Tennessee 38119 ("Applicant"), a wholly-owned subsidiary of Shelby County Health Care Corporation, d/b/a, Regional One Health, 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103 ("Owner"), owned and managed by itself, is applying for a Certificate of Need for the establishment of an Outpatient Diagnostic Center, including the initiation of MRI services along with CT, Mammography, X-ray/fluoroscopy and Ultrasound services. There are no new licensed beds and no major medical equipment involved with this project, other than what is mentioned above. It is proposed that the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$5,800,000.00, including filing fee.

The anticipated date of filing the application is: June 13, 2014.

The contact person for this project is E. Graham Baker, Jr. Attorney
(Contact Name) (Title)

who may be reached at: his office located at 2021 Richard Jones Road, Suite 120
(Company Name) (Address)

Nashville TN 37215 615 / 370-3380
(City) (State) (Zip Code) (Area Code / Phone Number)

E. Graham Baker, Jr.
(Signature)

June 09, 2014 graham@grahambaker.net
(Date) (E-mail Address)

=====

The Letter of Intent must be **filed in triplicate** and **received between the first and the tenth day of the month**. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

**Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243**

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The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

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* The project description must address the following factors:

1. General project description, including services to be provided or affected.
2. Location of facility: street address, and city/town.
3. Total number of beds affected, licensure proposed for such beds, and intended uses.

4. Major medical equipment involved.
5. Health services initiated or discontinued.
6. Estimated project costs.
7. For home health agencies, list all counties in proposed/licensed service area.

HF0051 (Revised 7/02 – all forms prior to this date are obsolete)

**CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF POLICY, PLANNING AND ASSESSMENT
615-741-1954**

DATE: August 31, 2014

APPLICANT: Regional One Health Imaging, LLC
6555 Quince Road
Memphis, Tennessee 38119

CON#: CN1406-024

CONTACT PERSON: E. Graham Baker, Esquire
2021 Richard Jones Road, Suite 350
Nashville, Tennessee 37215

COST: \$5,345,900

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning, and Assessment, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's State Health Plan*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:

The applicant, Regional One Health Imaging, LLC, is requesting a Certificate of Need for the establishment an Outpatient Diagnostic Center (ODC) including the initiation of Magnetic Resonance Imaging (MRI) services at 6555 Quince Road, Memphis (Shelby County), TN 38119. Along with MRI, the applicant intends to offer Computed Tomography, X-ray/fluoroscopy, Mammography, Bone Density, and Ultrasound services. The ODC will be located on the first floor of the Kirby Building, an existing medical office building, utilizing 5,275 square feet of space.

Regional One Health Imaging, LLC is a wholly owned subsidiary of Shelby County Health Care Corporation, dba, Regional One Health. Regional One Health owns and operates a hospital, Regional Medical Center at Memphis/The Med, at 877 Jefferson Avenue, Memphis (Shelby County), Tennessee 38103. The hospital provides the same services as the planned ODC, however, the diagnostic services at the hospital are over utilized and result in long wait times for patients and providers. The ODC will shift outpatients away from the hospital thus decreasing wait times and providing for the projected future demand for diagnostic services.

The proposed site is currently owned by Shelby County Health Care Corporation, which includes the land and a medical office building. Regional One Health Imaging, LLC, will lease 5,275 square feet of space in the MOB for the ODC. In addition to the ODC, Regional One Health System intends to create an intensive ambulatory, patient-centered practice model with primary care and select specialties supported by diagnostic services, physical and occupational therapies, and specialty practices of UT Medical Group physicians which will serve as a hub for Regional One's population health management strategy. According to the applicant, 80% of Regional One's patient population resides within 20 miles of the Kirby ODC location. Traveling downtown to the Regional Medical Center and navigating the large campus can be frustrating and inconvenient. The ODC will provide ample parking, convenient access to the building, and shortened wait times for scheduling diagnostic exams.

The applicant intends to initiate MRI services with the lease of General Electric diagnostic equipment, including a 1.5 tesla MRI, 16 slice CAT scan, Ultrasound, X-ray and Mammography

units at a purchase cost of \$2,115,948, with terms up to 84 months on some units. This equipment has an expected useful life of 7-10 years.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

NEED:

The applicant's intended service area will be Shelby County. Shelby County's population projection for 2014 is 943,812, and 954,012 for 2018 for an increase of 1.1%. Approximately 88.5% of the ODC owner's patients reside in Shelby County. According to the 2013 JAR Provisional for Regional One Health, of the 72,282 total Tennessee resident inpatient days, 66,524 inpatient days were for Shelby County residents, which accounts for 92% of the total inpatient days. The applicant expects to have the same demographic patient make up as the hospital, including patients from surrounding counties and states, but the vast majority of patients from the Shelby county area.

According to the HSDA equipment registry for 2012, there are 39 MRI units operating in the Shelby County service area. The total MR procedures for 2012 were 110,952 resulting in an average utilization per machine of 2,844 exams in 2012, just below or 99% of the optimal efficiency standard of 2880 procedures annually per unit. However, Regional One Health has exceeded the 80% of capacity or 2880 exam standard with annual MR exam totals of 3,733, 3,927, 4,491 and 4,131 for the last four years. These volumes also exceed the HSDA capacity criteria of 3600 annual exams for MRI capacity.

As the MR utilization at Regional One Health continues to rise, outpatient wait times rise as well. The single hospital MR unit is prioritized for inpatient and emergency room patients. When these demands increase, long scheduled outpatients may be "bumped" to another day, and often have two week delays to be rescheduled. Additionally, the applicant states that an internal study found that the excessive scheduling delays resulted in an increase rate of "no show" patients, either from patients seeking testing at other centers or by choosing not to have testing performed. Either of these scenarios produces a break in continuity of care.

TENNCARE/MEDICARE ACCESS:

This is a new facility, and certification for both Medicare and Medicaid will be applied for. The facility will also seek TennCare contracts with UHC/Americhoice, Blue Care, and TNCare Select.

The applicant anticipates the same payor mix as the hospital owner which is 25% Medicaid, 25% Medicare, 30% contracted Commercial, 10% other Commercial and 10% Self Pay.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:

In the Projected Costs Chart, page 36 of the application, the total estimated project cost is \$5,345,900. The Landlord and Applicant will share the renovation expenses, with the lease (page 2 of Attachment A.6) providing up to \$110.00/SF for Improvement Allowance paid by the Landlord. The applicant's renovation costs of \$249,000 divided by the ODC square footage, 4,587, equals approximately \$54.29 per square foot. The applicant will also incur approximately \$50,000 in legal expenses and an additional \$518,350 in fixed, non-diagnostic, equipment costs. While the project totals over \$5.3 million, the balance of the project costs include eleven years of facility rent and leasing/maintenance costs for the diagnostic equipment.

According to a letter furnished by J. Richard Wagers, Regional One Health's Sr. Executive Vice President and CFO, the owner has sufficient cash reserves to fund the project. (see Attachment C.EF.2)

As a new facility, the applicant has no historical data. However, the owner, Regional One Health, has been operating a single MRI unit above the HSDA annual exam capacity for the past four years.

The Projected Data Chart presented on page 41 of the application projects 2,363 MRI only procedures in year one, and 2,611 MRI only procedures in year two. Total projected outpatient exam volumes for year one are 12,579, and 15,095 for year two with net operating incomes of \$213,302, and \$45,074 respectively. The operating revenue decline from year one to year two is due to the initiation of equipment service agreements and increased lease payments.

The projected average gross charge for all services will be \$555 with an average deduction of \$366, resulting in an average net charge of \$188.

It is projected that the average gross MRI charge will be \$1,794 with an average deduction of \$1,185, resulting in an average net charge of \$609. This is comparable to the median MRI charge of \$2,106, per the HSDA Equipment Registry, 2012.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:

As the county healthcare facility, Regional One Health is the main provider for self-pay patients. Many patients faced with long wait times, choose not to have the testing and do not follow up on their care. The applicant cites a market growth analysis by the Health Care Advisory Board which shows nationally MR growth increased 2.2% between 2011 and 2012, and a 2.5% growth between 2012 and 2013. Projecting this growth to the current service area, each unit will be performing an average of 2,823 procedures per year by 2015. Adding another MR scanner for outpatients within the Regional One Health system will reduce wait times, provide increased access for outpatients at the ODC, as well as, for emergency room and inpatients to the hospital scanner, and provide overall better continuity of care. Internal reviews from Regional One Health's Radiology department show that it is not uncommon for wait times to schedule an outpatient MRI to be over eight days. Adding the ODC with MR will also provide better physical access to diagnostic services as the vast majority of Regional One Health patients live within a twenty minute drive from the Kirby MOB. Parking and navigating the large downtown hospital campus can be difficult and frustrating. The MOB will have ample parking and easy front door access. This project will also introduce newer equipment, and a modern, convenient facility which lends to the enhanced development of healthcare in the service area.

According to U.S. Census Bureau data, 16.5% of Tennesseans live below the poverty level. In Shelby County, 19.7% of the population lives below the poverty level. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the applicant.

Regional One Health serves as a rotation site for the UT Schools of Medicine and Nursing, along with other Allied Health professional schools. As a subsidiary of Regional One Health, the ODC intends to support and participate in these scholastic programs as well.

Regional One Imaging will seek licensure from the Tennessee Department of Health, Board for Licensing Healthcare Facilities as an ODC.

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

OUTPATIENT DIAGNOSTIC CENTERS

1. The need for outpatient diagnostic services shall be determined on a county by county basis (with data presented for contiguous counties for comparative purposes) and should be projected four years into the future using available population figures.

Approximately 88.5% of the applicant's owner's patients originate from Shelby County, Tennessee. The applicants intended service area will be Shelby County. Shelby County's population projection for 2014 is 943,812, and 954,012 for 2018 for an increase of 1.1%.

Source: Tennessee Population Projections 2010-2020, June 2013 Revision, Tennessee Department of Health, Division of Policy, Planning, and Assessment-Office of Health Statistics

2. Approval of additional outpatient diagnostic services will be made only when it is demonstrated that existing services in the applicant's geographical service area are not adequate and/or there are special circumstances that require additional services.

According to the HSDA equipment registry for 2012, there are 39 MRI units operating in the Shelby County service area. The total MR procedures for 2012 were 110,952 resulting in an average utilization per machine of 2,844 exams in 2012, just below or 99% of the optimal efficiency standard of 2880 procedures annually per unit. However, Regional One Health has exceeded the 80% of capacity or 2880 exam standard with annual MR exam totals of 3,733, 3,927, 4,491 and 4,131 for the last four years. These volumes also exceed the HSDA capacity criteria of 3600 annual exams for MRI capacity.

3. Any special needs and circumstances:

- a. The needs of both medical and outpatient diagnostic facilities and services must be analyzed.

During the past four years, the single MRI unit at Regional One Health has exceeded the HSDA capacity standard of 3660 exams. Outpatient exams are often "bumped" to accommodate inpatients or trauma patients. Rescheduling these patients may take weeks to be placed in an open position on the schedule.

The applicant states there are 58 Medically Underserved Area tracts in Shelby County.

- b. Other special needs and circumstances, which might be pertinent, must be analyzed.

Shelby County has a high percentage of racial minorities. According to U.S. Census Bureau data, 16.5% of Tennesseans live below the poverty level. In Shelby County, 19.7% of the population lives below the poverty level. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the applicant.

- c. The applicant must provide evidence that the proposed diagnostic outpatient services will meet the needs of the potential clientele to be served.

1. The applicant must demonstrate how emergencies within the outpatient diagnostic facility will be managed in conformity with accepted medical practice.

Regional One Health has protocols in place to ensure emergencies will be managed in conformity with accepted medical practice. These protocols will be replicated in the ODC.

2. The applicant must establish protocols that will assure that all clinical procedures performed are medically necessary and will not unnecessarily duplicate other services.

Regional One Health has protocols in place to ensure that all clinical procedures performed are medically necessary and will not unnecessarily duplicate other services. These protocols will be replicated in the ODC.

Magnetic Resonance Imaging

Standards and Criteria

1. Utilization Standards for non-Specialty MRI Units.

- a. An applicant proposing a new non-Specialty stationary MRI unit should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2800 procedures per year by the third year of service and for every year thereafter.

The applicant proposed that 75% of the routine outpatients currently being scanned at the hospital would be scanned at the ODC in the future, and also asserted that they would recover 75% of their current "No Show" patients due to more timely scheduling. The applicant projects MRI utilization in year one to be 2,363 procedures, 2,611 procedures in year two, and 2,885 procedures in year three. (Supplemental 1, page 20) These volumes meet the minimum standard.

- b. Providers proposing a new non-Specialty mobile MRI unit should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

Criteria not applicable.

- c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

Criteria not applicable.

- d. Mobile MRI units shall not be subject to the need standard in paragraph 1b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's geographical area are not adequate and/or that there are special circumstances that require these additional services.

Criteria not applicable.

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the service area's population. Applications that include non-Tennessee counties in their proposed service areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

According to the 2013 JAR Provisional for Regional One Health, of the 72,282 total Tennessee resident inpatient days, 66,524 inpatient days were for Shelby County residents, which accounts for 92% of the total inpatient days. The applicant expects to have the same demographic patient make up as the hospital. Based on an internal audit of patient zip codes, those requiring outpatient diagnostic services reside within a 20 minute drive of the ODC location.

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

Based on the cost and technology available, the applicant believes the MR unit chosen will provide the best imaging resolution and decreased exam times.

4. Need Standard for non-Specialty MRI Units.

A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve-month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 6 days per week x 50 weeks per year = 3,600 procedures per year

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.

According to the HSDA equipment registry for 2012, there are 39 MRI units operating in the Shelby County service area. The total MR procedures for 2012 were 110,952 resulting in an average utilization per machine of 2,844 exams in 2012, 99% of the optimal efficiency standard of 2880 procedures annually per unit.

5. Need Standards for Specialty MRI Units.

- a. Dedicated fixed or mobile Breast MRI Unit. An applicant proposing to acquire a dedicated fixed or mobile breast MRI unit shall demonstrate that annual utilization of the proposed MRI unit in the third year of operation is projected to be at least 1,600 MRI procedures (.80 times the total capacity of 1 procedure per hour times 40 hours per week times 50 weeks per year), and that:

1. It has an existing and ongoing working relationship with a breast-imaging radiologist or radiology proactive group that has experience interpreting breast images provided by mammography, ultrasound, and MRI unit equipment, and that is trained to interpret images produced by an MRI unit configured exclusively for mammographic studies;
2. Its existing mammography equipment, breast ultrasound equipment, and the proposed dedicated breast MRI unit is in compliance with the federal Mammography Quality Standards Act;
3. It is part of an existing healthcare system that provides comprehensive cancer care, including radiation oncology, medical oncology, surgical oncology and an established breast cancer treatment program that is based in the proposed service area.
4. It has an existing relationship with an established collaborative team for the treatment of breast cancer that includes radiologists, pathologists, radiation oncologists, hematologist/oncologists, surgeons, obstetricians/gynecologists, and primary care providers.

- b. Dedicated fixed or mobile Extremity MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Extremity MRI Unit shall provide documentation of the

total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity.

- c. Dedicated fixed or mobile Multi-position MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Multi-position MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity.

All criteria and standards for number 5 are not applicable.

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units. Breast, Extremity, and Multi-position MRI Units shall not be counted in the inventory of non-Specialty fixed or mobile MRI Units, and an inventory for each category of Specialty MRI Unit shall be counted and maintained separately. None of the Specialty MRI Units may be replaced with non-Specialty MRI fixed or mobile MRI Units and a Certificate of Need granted for any of these Specialty MRI Units shall have included on its face a statement to that effect. A non-Specialty fixed or mobile MRI Unit for which a CON is granted for Specialty MRI Unit purpose use-only shall be counted in the specific Specialty MRI Unit inventory and shall also have stated on the face of its Certificate of Need that it may not be used for non-Specialty MRI purposes.

Criteria not applicable.

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.
 - a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

The MRI is FDA approved per Attachment B.II.E.1.

- b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

The applicant responds that MRI services will conform to federal standards, manufacture's specification, and licensing requirements.

- c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

The applicant did not include emergency protocols, but stated that the ODC will have access to the owner hospital transfer agreements in case of emergencies.

- d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

The applicant states that once an order for services is received, the ICD9 and CPT codes are compared. If the ICD9 code does not support the CPT exam code, the

referring physician's office will be contacted for clarification. The interpreting radiologist may also be consulted as to the medical history and appropriateness of the exam.

- e. An applicant proposing to acquire any MRI Unit, including Dedicated Breast and Extremity MRI Units, shall demonstrate that:
- f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

Regional One Health and its Radiology Department are JCAHO accredited. The Applicant will pursue accreditation through the American College of Radiology for CT, MRI, Ultrasound and Mammography.

- g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

As a subsidiary of Regional One Health, the applicant will be able to access the same transfer agreements to their hospitals for emergencies. The medical director is a member of the hospital medical staff.

- 8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

The applicant agrees to supply all required data as described.

- 9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care." the HSDA may decide to give special consideration to an applicant:

- a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

This is a new facility, certification for both Medicare and Medicaid will be applied for. The facility will also seek TennCare contracts with UHC/Americhoice, Blue Care, and TNCare Select. Regional One Health accepts all patients who present for care, irrespective of their ability to pay, as will the Applicant. Approval of this project will further improve access to healthcare for the medically indigent.

- b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

Criteria not applicable.

- c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program.

This is a new facility, and certification for both Medicare and Medicaid will be applied for. The facility will also seek TennCare contract with UHC/Americhoice, Blue Care, and TNCare Select.